2011 ANNUAL REPORT

MANAGING WITH AGILITY AND RIGOUR

Caisse de dépôt et placement du Québec

In 2011, we met the daunting challenge of generating a sound return while protecting our clients' capital in turbulent times.

We confronted markets buffeted by major economic and financial events that generated great uncertainty. At the same time, the global economic structure continued to undergo profound change.

We now turn our attention to the future. Working with prudence, rigour and discipline, we will use our competitive edge, agility and financial flexibility to seize investment opportunities here in Québec and around the world.

This is how we will fulfill our mission, for our depositors and for the Québec economy as a whole.

2011 at a Glance

4.0%

CAISSE OVERALL RETURN

13 out of 17

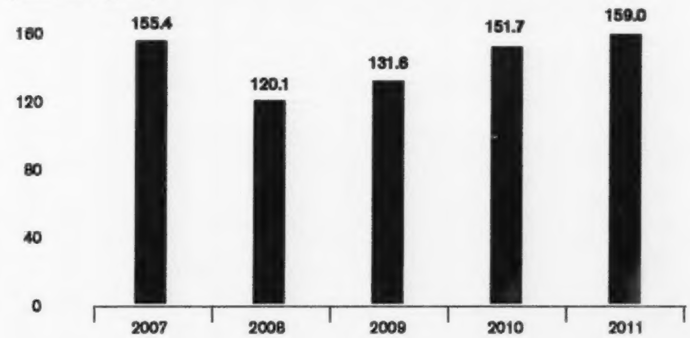
SPECIALIZED PORTFOLIOS POSTED POSITIVE RESULTS

$159.0 B

$7.2 B INCREASE IN NET ASSETS

Due to net investment results of $5.7 B and to net deposits of $1.5 B

CHANGES IN CAISSE NET ASSETS FROM 2007 TO 2011
(in billions of dollars)



9.1%

ANNUALIZED RETURN FOR 2009, 2010 AND 2011

AAA

HIGHEST CREDIT RATINGS MAINTAINED

The rating agencies DBRS, Moody's and Standard and Poor's once again maintained the highest credit ratings – with a stable outlook – for the Caisse or CDP Financial.

18.0¢

PER $100 OF AVERAGE NET ASSETS

A ratio of expenses that places the Caisse among the leaders in its category

THE CAISSE IN QUÉBEC: A STRONG PRESENCE BEYOND THE NUMBERS

$41.2 B

THE CAISSE'S TOTAL ASSETS IN QUÉBEC

Increase of $4.7 B in 2011

100

MORE THAN 100 NEW INVESTMENTS AND COMMITMENTS IN QUÉBEC IN 2011

$22.5 B

TOTAL ASSETS IN QUÉBEC'S PRIVATE SECTOR

25

DEPOSITORS

The Caisse serves 25 depositors, primarily Québec's public and parapublic sector pension and insurance plans. As at December 31, the seven main funds of our depositors accounted for 95.0% of net assets.

NET ASSETS OF THE SEVEN MAIN FUNDS OF OUR DEPOSITORS

(as at December 31)

	2011		2010	
	$M	**%**	$M	%
Government and Public Employees Retirement Plan	**41,982**	**26.4**	41,301	27.2
Retirement Plans Sinking Fund	**36,351**	**22.9**	34,202	22.6
Régie des rentes du Québec	**34,877**	**21.9**	33,845	22.3
Supplemental Pension Plan for employees of the Québec construction industry	**13,159**	**8.3**	12,047	8.0
Commission de la santé et de la sécurité du travail	**9,945**	**6.3**	9,563	6.3
Société de l'assurance automobile du Québec	**7,389**	**4.7**	7,006	4.6
Pension Plan of Management Personnel	**7,122**	**4.5**	6,843	4.5
Total of the seven main funds of our depositors	**150,825**	**95.0**	144,807	95.5
Other	**8,140**	**5.0**	6,935	4.5
Total	**158,965**	**100.0**	151,742	100.0

2011 at a Glance

AGILE

THROUGH DECISIONS COMBINING OFFENSIVE AND DEFENSIVE STRATEGIES

- High level of fixed income assets: 10.4% return
- Active management of illiquid portfolios: returns of 23.3% (Infrastructure), 11.0% (Real Estate) and 7.1% (Private Equity)
- Refocusing of Real Estate Debt activities: 15.0% return
- Financial flexibility reestablished to seize the best investment opportunities
- Exposure to equity markets reduced by $11 billion as a result of the European crisis, and subsequently rebuilt

RIGOROUS

THROUGH IN-DEPTH ANALYSES OF ECONOMIES, INDUSTRIES AND COMPANIES TO ASSESS THEIR POTENTIAL AND RISKS

- Strengthened macro- and microeconomic research capacity
- Investment opportunities seized as a result of our expertise in promising sectors such as infrastructure and real estate
- Close monitoring of portfolios through stress tests and risk scenarios
- Maintenance of prudent levels of liquidity and leverage in response to the threat of a systemic crisis
- Maintenance of the highest credit ratings: AAA

ACTIVE IN QUÉBEC

TO BOOST BUSINESS AND ECONOMIC GROWTH

- $4.7 billion increase in total assets in 2011 and new investments and commitments totaling $2.1 billion
- Close to a $600 million increase in assets in Québec companies in the Canadian Equity portfolio in 2011, and a $1.2 billion increase since the end of 2009
- New real estate investments of almost $800 million
- Investments in approximately 60 companies in all regions of Québec, in partnership with Desjardins
- Tour of the regions, with conferences on globalization and information sessions in more than 20 cities in Québec for close to 1,000 entrepreneurs and business people

COMMITTED

TO EFFECTIVELY SERVE THE DEPOSITORS THROUGH STRENGTHENED COLLABORATION AND ADVISORY SERVICES

- 110 work sessions and consultations between our managers, members of management and our depositors
- New product offered to adjust exposure to the term of investments based on the specific needs of depositors
- New collaborative arrangement: creation of the Strategic Asset Allocation Expertise Group, which brings together experts from the Caisse and depositors
- Renewed customized service agreements for most depositors
- Five information seminars and three consultation forums to promote dialogue and discuss changes to the service offer and the strategic issues of both the Caisse and its depositors

Message from the Chairman

For the Caisse de dépôt et placement du Québec, 2011 was a pivotal year. Over the past 12 months, the Caisse completed most of the improvements and projects necessary to rebuild the institution on solid foundations. It now has a renewed, stable management team, a new range of portfolios and a spectrum of tools and methods for better understanding and controling risk. The organization's support functions were strengthened, its real estate subsidiaries restructured, and its financial leverage reduced.

The Board is very pleased with the 2011 return, which it believes is commensurate with the progress made and demonstrates the Caisse's ability not only to protect but also to increase depositors' capital in these challenging times for financial markets.

A NEW GLOBAL ENVIRONMENT EMERGING FROM THE CRISIS

The improvements made at the Caisse will now enable it to be more agile and act on business opportunities it might once have missed.

Over the next few years, the economic environment, tumultuous though it may be, will not be lacking in opportunities. It is clearer than ever that we have a two-speed global economy. Developed economies, prosperous but aging, are slowing down and generating more debt than wealth. Conversely, emerging economies are moving full speed ahead, driven by more favourable demographics and accelerated urbanization.

The Caisse's management is therefore concentrating on ways to further tap into the vitality of emerging markets. It can do this directly by investing in businesses and initiatives in emerging markets or indirectly by investing in businesses, here in Québec and elsewhere, that are poised to ramp up exports.

In 2011, in anticipation of these challenges, the Caisse's senior management developed its strategic direction, with a focus on teamwork, agility and, above all, knowledge. In the coming years, the Caisse will work at enlarging its pool of expertise and its analytical and research capabilities.

SUPPORTING QUÉBEC'S ECONOMIC DEVELOPMENT AND CONQUERING GLOBAL MARKETS

In 2011, the Board and the management team focused sharply on one of the pillars of the Caisse's mission: to contribute to Québec's economic development for the benefit of Québecers and depositors. The Caisse multiplied its investments and initiatives to bring it closer to the business community.

The quest to achieve an optimal return for our depositors is in itself a powerful contribution to Québec's economic prosperity. Our returns help our depositors maintain the financial equilibrium of the pension and insurance plans under their responsibility. This is particularly important since Québec, like most economies of developed countries, must cope with an aging population.

Beyond its returns and announcements of new investments, the Board fully supports the fact that the Caisse contributes to Québec using the strengths it has developed. The Caisse wants to make its expertise and global business network available to Québec companies because, for many Québec companies, breaking into foreign markets is both a complex undertaking and a key driver of growth. Lastly, because wealth creation is inextricably tied to entrepreneurial initiative, the Caisse plans to step up its efforts to support entrepreneurship and facilitate business succession.

As Chairman of the Caisse, I would like to acknowledge the ongoing commitment and work of the Board members. Again this year, they put their expertise to work for the Caisse and enriched our discussions. Their input was especially appreciated in 2011. I would also like to thank André Trudeau, who left the Board this year, and welcome his successor, Denys Jean, President and Chief Executive Officer of the Régie des rentes du Québec.

Risk and uncertainty are an inherent part of investment management. Over the past 12 months, the Caisse has worked diligently to develop the tools and vision required to better understand and identify value-generating opportunities. For this reason, the Board feels confident about the future and about the talent and commitment of the management team and the employees.

ROBERT TESSIER
Chairman of the Board

Message from the President and Chief Executive Officer

2011 was not an easy year. Major political and economic events on the world stage created a great deal of uncertainty, making the markets volatile, sometimes very volatile. And simultaneously in the background, profound structural changes continued to reshape the global economy.

The year started off well enough, mainly due to efforts in the U.S. to stimulate demand. The Japanese tsunami and the Arab Spring caused concern in the markets, but more disquieting was the European authorities' lack of resolve in addressing the sovereign debt crisis. Furthermore, the European crisis coincided with an intense partisan debate in the U.S. over the federal debt ceiling. Given so many uncertainties, the markets tumbled – the S&P 500 index plummeted almost 20% from July to October – and interest rates hit record lows, all in an environment of intense volatility.

The Caisse nevertheless managed to weather the storm. On the strength of the work accomplished over the last three years, we made some significant progress. Net assets grew to $159 billion, above the pre-2008 crisis level. We generated a 4% return this year, while protecting depositors' capital and contributing to the growth of Québec companies.

Over the last three years, the Caisse has generated an annualized return of 9%. Since we structured our portfolios and changed our investment strategy in July 2009, the return has been 11%.

INVESTING IN QUÉBEC: GREATER ASSETS AND A STRONGER PRESENCE

In 2011, we also expanded our presence in Québec. Total assets grew 13%, or $4.7 billion, to $41.2 billion. Our Québec-based investments now account for 22% of our total worldwide investment which is more than the Caisse invests in the entire United States.

> Stated simply, this means investing more and more in tangible things that people use every day, rather than in abstract products whose values have to be calculated by mathematicians.

This year, we made $2.1 billion of new investments and new commitments in Québec companies. This amount is the Caisse's contribution to the realization of private sector projects worth $5 billion.

New investments were made in GENIVAR, Industrial Alliance, Kruger, Cascades and the consortium building the Centre hospitalier de l'Université de Montréal (CHUM). In 2011 the Caisse also invested in wind farms, the expansion of the ALT hotel chain and the acquisition of the Rockhill residential complex in Montréal.

Investments in the securities of publicly listed Québec companies were up $600 million in 2011 and have risen by $1.2 billion since the end of 2009. In addition, since one of our priorities is to identify promising small businesses across Québec, we also invested in close to 60 SMEs in 2011, in partnership with Desjardins Group.

A strong presence in Québec is an essential pillar of our plan for the Caisse's future. Of course much remains to be done. We will continue to build on our comparative advantages, which include our proximity to and deep knowledge of the Québec business community and economy, as well as our international scope

2012: A BETTER OUTLOOK, BUT VIGILANCE IS STILL REQUIRED

The global economy should gather momentum in 2012, although many uncertainties remain.

In the U.S., the early months of 2012 saw signs of renewed job creation and stronger financial health among the major banks. Consumer confidence is on the rise, and the real estate market is gradually recovering.

In Europe, we appear to have been spared the worst, and confidence is slowly returning. This is what really matters. A sustained world economic recovery is contingent on renewed confidence and requires the support of strong continental markets on both sides of the Atlantic. We remain on the alert for short-term risks in Europe. These economies still need to demonstrate that they can manage public spending while generating the economic growth needed to significantly reduce debt levels.

Emerging markets, on the other hand, slowed due to the problems of their major trading partners. The approach taken by authorities to manage the situation will be key, particularly in China. If these countries can stimulate domestic demand, as China and Brazil are attempting, the outlook for the medium term will remain strong – and certainly better than for developed countries.

> Québec is well positioned to profit from the changes in the structure of the global economy driven by the growth in emerging countries, and offers us a fertile terrain full of opportunities.

That said, there are two issues that could still have a decisive influence: developments in Southern Europe and fluctuations in the price of oil – both could influence global economic growth.

Overall, 2012 should be better than 2011. But many risks remain. The Caisse must remain vigilant.

PREPARING FOR THE FUTURE: PRACTICES, STRATEGIES AND INVESTMENT THEMES

The challenges facing the Caisse go well beyond the coming year. Over a longer horizon, and more fundamentally, the tectonic plates of the world economy are shifting, with far-reaching consequences.

As I have said many times before, it is essential that our depositors and Québec companies be able to capitalize on these circumstances. For this to happen, the Caisse must continue to evolve. We need to develop new ways of working, relying on the basics and on plain common sense – all with a long-term perspective. This is our goal every day: to grow the retirement savings of Québecers while contributing to Québec's economic development.

What impact will this have on our investment practices, here in Québec and elsewhere? Simply stated, it means investing more and more in tangible things that people use every day, rather than in abstract products whose values are calculated by mathematicians. It means investing in pipelines and buildings, bridges and mines, railways and ports, and top-notch management teams. In short, investing in projects and companies that are sound, which we understand and that have intrinsic value.

In order for our investment decisions to be as solid as possible, we must base them on an in-depth knowledge of fundamentals: the potential and the risks, as well as the financial and operational aspects of each investment we make.

We will therefore continue to strengthen our research capabilities. In markets that are ever more volatile and competitive, we must understand the subtleties missed by our competitors, and surround ourselves with people of world class talent. In addition to financial experts, we must recruit operating experts – engineers, geologists, telecommunications specialists, and professionals who fully understand businesses from an operating point of view.

Our investment strategies will flow from two main sources: a greater emphasis on absolute returns in our public equity portfolios and on alternative investment classes.

Market indexes are increasingly vulnerable to unexpected events all over the world. An absolute return approach, grounded in strong investment beliefs and in-depth knowledge rather than on indexes, is consistent with our depositors' need for long-term returns.

For similar reasons, we also want to invest more in alternative investments such as infrastructure, private equity and real estate, whose performance is less tied to volatile indexes. Over the years, the Caisse has acquired extensive experience in these areas, giving us a competitive edge.

Over the next 10 years, approximately 75% of world economic growth will be driven by emerging markets such as China, Brazil, Turkey and Colombia. While economic growth is not always synonymous with good investment returns, it does tend to increase the number of opportunities. The Caisse must therefore acquire the expertise it needs, both internally and by teaming up with the most seasoned local and international partners. It will then be able to increase its presence, in a disciplined manner, in these countries.

The strong growth in emerging markets is well illustrated by their rapid urbanization, which pushes demand for natural resources. This trend should continue for a long time and offers great opportunities for long-term investors able to absorb short-term fluctuations. In the natural resource arena, the Caisse already has solid expertise which it will continue to develop.

Growth opportunities for Québec

Québec is well positioned to profit from the changes in the structure of the global economy driven by the growth in emerging countries, and offers us a fertile terrain full of opportunities.

The growing demand for natural resources may be an opportunity for economic growth in Québec. We intend to invest in the expansion of this sector in Québec, particularly in the infrastructure required for these operations. One example: our collaboration with CN on a new railway that will link Northern Québec to world markets.

That said, in a changing global economy, countless opportunities for growth will open up to Québec companies, far beyond natural resources. We will continue to identify and encourage companies across Québec's economic fabric, from large corporations to promising, innovative SMEs. We also want to invest in infrastructure projects that are essential in strengthening productivity in our economy.

Growing businesses are proof of Québec's economic vitality. Whenever possible, we intend to work closely with Québec companies, serving as a bridge to the world, to help them conquer new markets and better position themselves internationally. In this way, they too will be able to capitalize on global growth.

TALENT AND AGILITY

There is no question that the Caisse has considerable advantages that will contribute to the future: its size, history, knowledge of Québec, excellent track record in alternative investments, long-term investment horizon, and more. That said, among these, two stand out.

The first is the talent and commitment of everyone working at the Caisse. It is thanks to them that we passed the test of 2011. We are counting on them for the years ahead, which is why the Caisse is determined to attract and retain the best, an essential prerequisite to developing our expertise and to our success as an investor.

Second, as a result of three years of prudent management the Caisse now has a key asset that it did not always enjoy: financial flexibility. This will allow us to invest in a new generation of assets that will provide solid returns over the next five to ten years.

This is our strategy for building a strong Caisse capable of safeguarding and growing the retirement savings of Québecers and making a sustained and constructive contribution to Québec's economic development.

MICHAEL SABIA
President and Chief Executive Officer

Our Clients, the Depositors

Our Clients, the Depositors

AN ENHANCED COLLABORATIVE MODEL

Economic uncertainty and market volatility in 2011 provided an opportunity for the Caisse to consolidate its collaborative model with depositors. In addition to finalizing customized service agreements and developing enhanced reporting activities, everything has been done to ensure sustained, transparent and productive exchanges with each of the 25 depositors.

HIGHLIGHTS

01 As at December 31, 2011, depositors' net assets totaled $159.0 billion due to net investment results of $5.7 billion and $1.5 billion in net deposits.

02 In the turbulent environment of 2011, the Caisse took the necessary steps to reduce overall portfolio risk and to inform depositors of developments as well as the repercussions on their respective portfolios.

03 The Caisse reaffirmed its commitments by renewing customized service agreements with most depositors.

04 The Caisse put in place a new collaborative arrangement with depositors, the Strategic Asset Allocation Expertise Group.

The initiatives taken in 2011 were aimed at fostering ongoing interaction with the depositors. They may be grouped together under the following themes:

1. Concluding customized service agreements with most depositors
2. Implementing new forms of collaboration
3. Refining reporting tools

CUSTOMIZED SERVICE AGREEMENTS

The Caisse used the service level agreement model developed in 2010, in collaboration with depositors, in order to conclude new agreements that take into account the specific characteristics of each depositor. At the end of 2011, most of these service agreements had been signed, setting out the Caisse's responsibilities and commitments, especially where reporting activities are concerned.

All of the Caisse sectors concerned have been made aware of the content of these new service agreements and have helped implement the resulting new follow-up mechanisms.

CLOSE COLLABORATION IN MANY RESPECTS

The Caisse was in constant communication with its depositors in 2011, given the turbulence seen in financial markets, to keep them apprised of developments. It organized conference calls on several occasions to explain the measures taken to protect the overall portfolio and discuss their repercussions on depositors' portfolios. In short, the events that caused market turmoil during the year provided an opportunity to strengthen the principles of collaboration between the Caisse and its depositors.

At the same time, the Caisse took steps to support depositors facing demographic and financial challenges relating to pension plans and certain insurance programs, including:

- An expanded offering of advisory services taking into account the risks associated with depositor liabilities;
- A new product offering the possibility of adjusting the duration of the investments by using interest rate overlay mechanisms.

These initiatives give depositors new options and better support for establishing their asset allocation and for matching their assets to their liabilities.

The respective roles of the Caisse and depositors are outlined on page 14.

New opportunities for dialogue

The Caisse has continued to implement mechanisms to promote dialogue that reflect its desire to focus on the principles of proactivity and transparency in its communications with depositors:

- A new forum, the Strategic Asset Allocation Expertise Group, was created to foster communication between depositors' and the Caisse's experts regarding issues and practices relating to the establishment, implementation and follow-up of depositors' investment policies. This forum contributes to the ongoing development of participants' expertise and makes it possible to better satisfy depositors' specific needs. An initial meeting was held in the fall of 2011 and three meetings are scheduled to be held per year starting in 2012.
- Five seminars were held for depositors during the year. They related, in particular, to the Caisse's strategic direction and the resulting investment activities. These meetings are also opportunities for discussions between depositors, portfolio managers and members of the Caisse's management.
- Three consultation forums were held for members of management and representatives of the main depositors, providing an opportunity to discuss strategic issues and respective challenges facing the Caisse and depositors.

ENHANCED REPORTING

The Caisse also paid especially close attention to its reporting activities in 2011. Among other things, it made significant improvements to its various reports to address the needs and expectations expressed by depositors:

- Monthly and semi-annual reports have been improved, in particular by adding sections on currency management and investments in Québec.
- The semi-annual newsletter focusing on risk has been improved, among other things by adding information on prospective risks and concentration risk.
- Investment policy compliance reports have been added to facilitate quarterly follow-ups.
- Reference material on specialized portfolios and risk-return forecasts has been improved to assist depositors in deciding on their asset allocation.

All of these documents round out the information provided by account managers during their meetings with depositors.

Our Clients, the Depositors

COMPLEMENTARY ROLES

Below is an outline of the respective roles (depositors and Caisse) in regards to the management of the depositors' assets (see Figure 1).

1. **Depositors entrust their funds to the Caisse to make them grow, specifying their performance objectives, risk tolerance and asset allocation in their investment policy.**
2. **The Caisse provides depositors with investment advice, working closely with them to develop and revise their investment policy.**
3. **Each depositor has the opportunity to invest its funds in the Caisse's 17 specialized portfolios and select a target currency exposure, and the duration of the investments through interest rate overlay mechanisms. It can choose to invest in actively managed or indexed foreign equity portfolios. The asset allocation of a depositor (its choice of various specialized portfolios) becomes its benchmark portfolio.**
4. **The Caisse's benchmark portfolio is based on the weighted average of all depositors' benchmark portfolios.**
5. **The Caisse's portfolio managers invest the funds of the depositors in accordance with depositors' and specialized portfolio investment policies.**
6. **Eleven of the 17 specialized portfolios available to depositors are actively managed. The managers of these portfolios aim to outperform their benchmark through security, sector or country selection. Active management is concentrated where the Caisse has comparative advantages. The six other portfolios are indexed and aim to replicate the benchmarks.**
7. **The aggregation of the depositors' funds represents the Caisse's overall portfolio. The return on this portfolio corresponds to the weighted average return on depositors' funds.**
8. **Given market conditions and the short- and medium-term economic outlook, the Caisse carries out rebalancing activities, namely it adjusts the weighting of its specialized portfolios. The purpose of this exercise is to improve the performance of the depositors' funds and, consequently, the Caisse's overall portfolio.**

PROCESS USED TO MANAGE DEPOSITORS' HOLDINGS

1	DEPOSITOR 1	DEPOSITOR 2	DEPOSITOR 3	
	↓	↓	↓	
3	Investment policy Benchmark portfolio	Investment policy Benchmark portfolio	Investment policy Benchmark portfolio	Caisse advisory services 2
	↓	↓	↓	
4		**CAISSE BENCHMARK PORTFOLIO** Target return determined by the depositors' investment policies		
		↓		
5	Specialized portfolio A	Specialized portfolio B	Specialized portfolio C	
6	Actively managed	Actively managed	Indexed	
		↓		
7		**CAISSE OVERALL PORTFOLIO**		
8		**Active management of asset allocation**		

DEPOSITORS

In 2011, the Caisse had 25 depositors, primarily Québec public and parapublic sector pension and insurance plans. Table 2 lists the seven main funds of our depositors which, as at December 31, 2011, represented 95.0% of our depositors' net assets. Table 3 (p. 16) presents the 25 depositors, including a comparison of their net assets as at December 31, 2010 and December 31, 2011.

THE SEVEN MAIN FUNDS OF OUR DEPOSITORS

			Description
1	GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN	Pension plan	The plan consists primarily of contributions by employees who work in Québec's health and social services sector, education system and public sector. The plan is administered by the Commission administrative des régimes de retraite et d'assurances.
2	RETIREMENT PLANS SINKING FUND	Pension plan	The fund provides for payment of retirement benefits that are the responsibility of the government, according to the provisions of the retirement plans for the public and parapublic sectors. The fund is financed by the Government of Québec and administered by the ministère des Finances.
3	RÉGIE DES RENTES DU QUÉBEC	Pension plan	The Régie des rentes contributes to Québecers' income security, notably by providing for payment of a retirement pension. The plan is mandatory and the contributions are made by employees and employers.
4	SUPPLEMENTAL PENSION PLAN FOR EMPLOYEES OF THE QUÉBEC CONSTRUCTION INDUSTRY	Pension plan	The plan is administered by the Commission de la construction du Québec. The contributions to the plan are paid by construction industry employers and workers.
5	COMMISSION DE LA SANTÉ ET DE LA SÉCURITÉ DUTRAVAIL	Insurance plan	The Commission mainly compensates workers who have had work-related accidents and contributes to their rehabilitation. It is financed by contributions from Québec employers.
6	SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC	Insurance plan	The Société compensates victims of vehicular accidents and promotes traffic safety. It is financed mainly by fees collected for driver's licences and vehicle registration.
7	PENSION PLAN OF MANAGEMENT PERSONNEL	Pension plan	The plan consists of contributions by management employees in the public and parapublic sectors. The plan is administered by the Commission administrative des régimes de retraite et d'assurances.

THE CAISSE'S 25 DEPOSITORS

(fair value as at December 31 – in millions of dollars)

	First deposit	Depositors' net assets 2011 $	2011 %	2010 $	2010 %
PENSION PLANS					
Régie des rentes du Québec	1966	**34,877**	**21.9**	33,845	22.3
Supplemental Pension Plan for employees of the Québec construction industry	1970	**13,159**	**8.3**	12,047	8.0
Government and Public Employees Retirement Plan	1973	**41,982**	**26.4**	41,301	27.2
Pension Plan of Management Personnel	1973	**7,122**	**4.5**	6,843	4.5
Individual Plans	1977	**178**	**0.1**	173	0.1
Pension Plan for Elected Municipal Officers	1989	**159**	**0.1**	156	0.1
Régime complémentaire de rentes des techniciens ambulanciers/paramédics et des services préhospitaliers d'urgence	1990	**301**	**0.2**	277	0.2
Ministère des Finances, Government of Québec[1]					
Retirement Plans Sinking Fund	1994	**36,351**	**22.9**	34,202	22.6
Superannuation Plan for the Members of the Sûreté du Québec – caisse employeurs	2009	**144**	**0.1**	142	0.1
Régime de retraite de l'Université du Québec	2004	**226**	**0.2**	214	0.1
Régime de retraite du personnel des CPE et des garderies privées conventionnées du Québec	2005	**97**	**–**	73	–
Régime complémentaire de retraite des employés syndiqués de la Commission de la construction du Québec[2]	2006	**–**	**–**	16	–
Régime de retraite pour certains employés de la Commission scolaire de la Capitale	2006	**37**	**–**	38	–
Régime de rentes pour le personnel non enseignant de la Commission des écoles catholiques de Montréal	2007	**222**	**0.1**	232	0.2
Superannuation Plan for the Members of the Sûreté du Québec – caisse participants	2007	**130**	**0.1**	101	0.1
Régime de retraite des employés de la Ville de Laval	2007	**95**	**–**	65	–
Retirement Plan for Active Members of the Centre hospitalier Côte-des-Neiges	2010	**65**	**–**	67	–
INSURANCE PLANS					
Régie des marchés agricoles et alimentaires du Québec	1967	**7**	**–**	7	–
La Financière agricole du Québec	1968	**218**	**0.2**	217	0.2
Autorité des marchés financiers	1969	**592**	**0.4**	548	0.4
Commission de la santé et de la sécurité du travail	1973	**9,945**	**6.3**	9,563	6.3
Société de l'assurance automobile du Québec	1978	**7,389**	**4.7**	7,006	4.6
Fédération des producteurs de bovins du Québec	1989	**7**	**–**	6	–
Survivor's pension plan	1997	**356**	**0.2**	364	0.2
Conseil de gestion de l'assurance parentale	2005	**2**	**–**	2	–
OTHER DEPOSITORS					
Office de la protection du consommateur	1992	**75**	**–**	61	–
Société des alcools du Québec	1994	**121**	**0.1**	144	0.1
Ministère des Finances, Government of Québec					
Generations Fund	2007	**4,024**	**2.5**	3,287	2.2
Accumulated Sick Leave Fund	2008	**769**	**0.5**	745	0.5
Fonds d'information sur le territoire	2011	**315**	**0.2**	–	–
Total		**158,965**	**100.0**	151,742	100.0

1. The ministère des Finances entrusts the Caisse with a total of five funds.
2. This depositor is not included in the 25 depositors as at December 31, 2011.

Management Report

Macroeconomic Environment

HIGHLIGHTS

01 In 2011, the combined effect of macroeconomic shocks and dysfunction in certain political institutions weighed heavily on the global economy and returns on riskier assets.

02 The sovereign debt crisis in Europe threatened its banking system and the survival of the euro.

03 Many central banks responded to the deteriorating outlook by easing monetary policy and keeping interest rates at historically low levels.

04 Québec's economy was also exposed to global macroeconomic shocks in 2011; however, international exports showed encouraging signs toward year end.

The year began on a positive note, driven by monetary and budgetary stimulus measures announced in the United States at the end of the previous year. The economic outlook in the developed countries appeared encouraging. However, several major macroeconomic shocks served as a reminder that the global economy was still vulnerable in the wake of the financial crisis, in particular due to the high levels of household and government debt in the developed world.

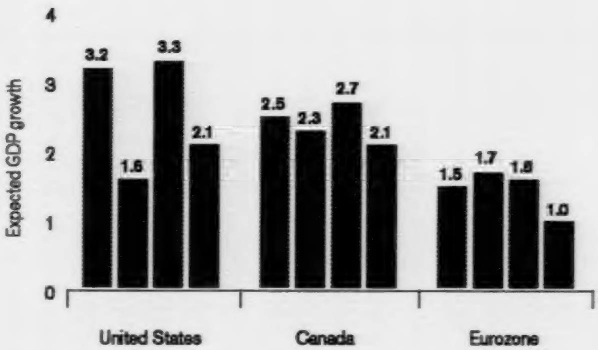
In early March, the earthquake and tsunami in Japan disrupted industrial supply chains around the world, sending Japan into recession and slowing global growth. Again in March, a series of uprisings in the Arab world drove up energy prices, reducing the purchasing power of consumers everywhere. In July, despite evidence that the U.S. economy had entered an expansionary phase at the end of 2010, a major downward revision to GDP data effectively downgraded this expansion to a mere recovery. Then, in August, rating agency Standard & Poor's downgraded the United States' credit rating, from AAA to AA+, stating that Congress had not agreed on a credible plan to reduce the national debt in the medium term.

The combined effect of these events was that economists were obliged to lower their growth outlooks considerably (see Figure 4), which resulted in much more risk aversion. Stock prices dropped abruptly, and interest rates fell to historically low levels (see Figure 5, p.19).

DETERIORATING ECONOMIC OUTLOOK BETWEEN JANUARY AND SEPTEMBER 2011
(as a percentage)

2011 Outlook
- January 2011 survey
- September 2011 survey

2012 Outlook
- January 2011 survey
- September 2011 survey

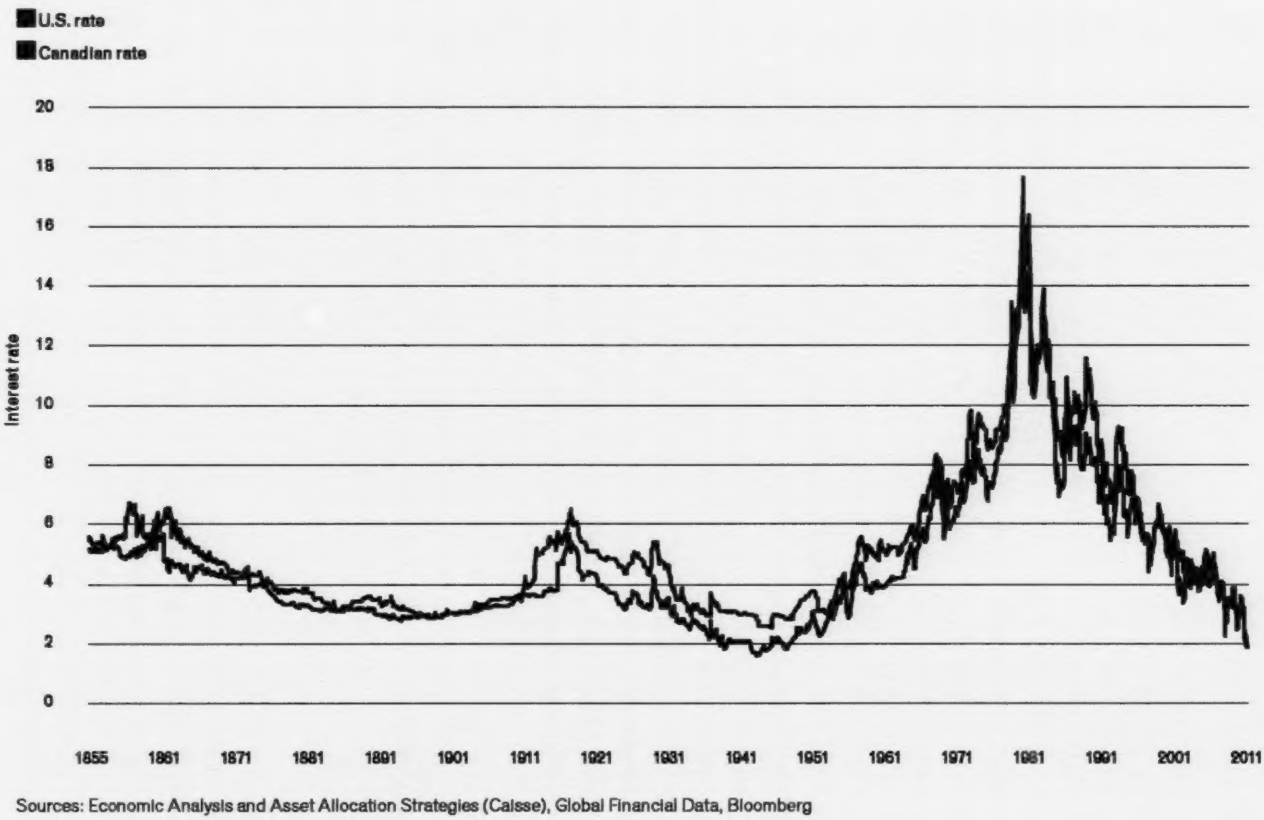


Source: Data from surveys carried out by Consensus Economics with the world's leading forecasters.

The sovereign debt crisis in Europe also played a major role in darkening the global economic outlook and creating a climate of uncertainty. Households and businesses in the eurozone cut spending as a result of the budget austerity measures implemented by their governments. These measures notwithstanding, the cost of financing most of the heavily indebted countries (Greece, Portugal, Spain and Italy) continued to rise, and a series of downgrades followed. Since most of these countries' bonds are held by European banks, rising bond interest rates eroded their assets and raised their borrowing rates. They then passed this increase along to clients, including households and businesses, in the form of higher borrowing costs and tighter credit conditions, which further held back growth. Finally, given the close financial ties between the indebted countries, European banks and the European economy, the climate of uncertainty was exacerbated by fears that a series of disorderly defaults would threaten not only growth in the eurozone, but also the solvency of the European banking system and even the euro itself.

EVOLUTION OF INTEREST RATES OF 10-YEAR BONDS OF CANADIAN AND U.S. GOVERNMENTS (1855-2011)

(as a percentage)



Sources: Economic Analysis and Asset Allocation Strategies (Caisse), Global Financial Data, Bloomberg

Macroeconomic Environment

In this environment, the main central banks decided to ease monetary policy. In anticipation of a low use of resources and controlled inflation, the U.S. Federal Reserve (the Fed) committed conditionally to maintaining its key interest rate at a very low level until mid-2013 and extended the average maturity of its bond portfolio to exert additional downward pressure on long-term interest rates. In November, the European Central Bank (ECB) lowered its key interest rate by 25 b.p. (0.25%). It lowered the rate again in December, in addition to adopting an extraordinary measure to support European banks and interbank lending. This prevented a liquidity crisis and reduced the funding costs of some indebted countries. As for the emerging economies, China was forced to tighten monetary policy during 2011, only to begin easing at the end of the year to counter the effects of a slower global economy and to prevent economic activity in China from slowing down too quickly. The Central Bank of Brazil also lowered interest rates.

In financial markets, asset returns rose and fell as investor sentiment cycled between risk aversion, in response to macroeconomic shocks, and a greater appetite for risk, as central banks and governments waged counter-attacks to diminish their effects. In the end, the reasons for seeking capital protection dominated. Despite growing earnings posted by listed companies, the stock markets of the main developed countries ended the year in negative territory, except for the S&P 500, which posted a 2.1%[1] gain. In contrast, it was an excellent year for bond markets, with the notable exception of bonds of the troubled European countries.

Canada

GDP growth in Canada slowed substantially, from 3.2% in 2010 to 2.5% in 2011, mainly due to slower growth in domestic demand. While exports rose and fell in response to the various global macroeconomic shocks, the erosion of purchasing power caused by higher oil prices and declining household confidence together limited consumption growth, which fell from 3.3% in 2010 to 2.2% in 2011. The labour market, which was strong at the start of the year, had weakened somewhat by the fourth quarter, with the unemployment rate reaching 7.5% by year end. Private non-residential investment (+13.7% in 2011) grew strongly early in the year owing to the financial health of businesses, the strength of the Canadian dollar and favourable credit conditions. Even so, external macroeconomic shocks diminished the sales outlook for businesses, such that investments in machinery and equipment posted an 11.8% annualized decline in the third quarter and a slight 2.7% increase in the fourth quarter. Finally, the debt burden of Canadian households continued to rise in 2011, particularly through mortgage loans. By the end of 2011 household debt had reached more than 150% of disposable income (see Figure 6).

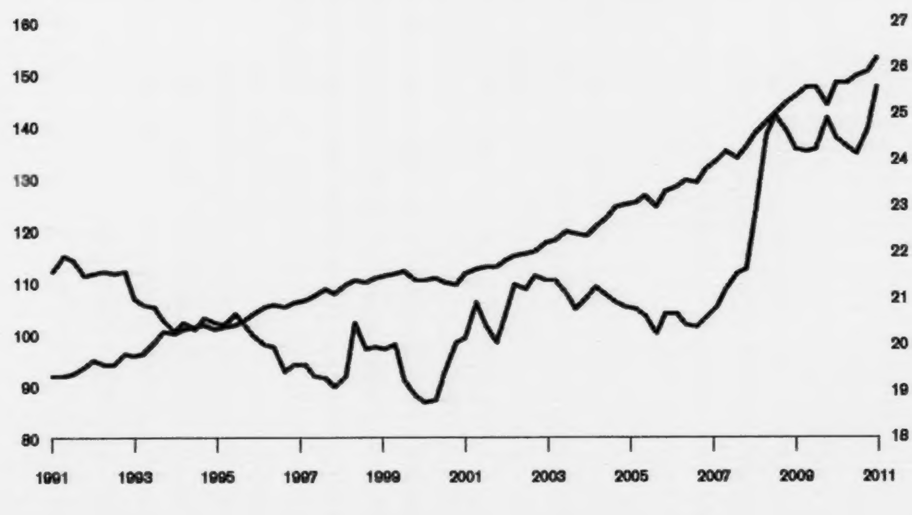
1. Given the depreciation of the Canadian dollar, the return translated into Canadian dollars was 4.6%.

HOUSEHOLD DEBT IN CANADA
(as a percentage)

■ Debt / Disposable personal income (left scale)

■ Debt / Net assets (right scale)

Sources: Economic Analysis and Asset Allocation Strategies (Caisse), Statistics Canada



Québec
Like almost all the developed countries, Québec's GDP growth slowed during the year, from 2.5% in 2010 to 1.7% in 2011. This slowdown was caused by a marked decline in the growth of domestic demand in an environment where several adverse external shocks affected foreign trade, particularly in the first half of the year. The slowdown was due in large part to the near stagnation of consumer spending in the first three quarters of the year, and to increased inflation, which had a marked effect on household purchasing power. The residential sector also weighed on domestic demand, as housing starts fell 5.8% compared to 2010. That being said, domestic demand benefited from the financial health of private businesses, which increased investments in machinery and equipment.

The strength of the Canadian dollar put pressure on the manufacturing sector, which declined by 0.3%. The aerospace industry again lost ground (-1.1%), despite a slight rebound in the second half of the year. The service sector continued to contribute to growth (+1.9%), despite a 0.4% decline in the retail industry.

Finally, the end of 2011 was characterized by mixed signals. The employment market gave cause for concern in the fourth quarter when the unemployment rate rose. However, a second survey, conducted in companies, indicated that jobs were created in the same period. This trend appears to be continuing, with a decrease in the unemployment rate in the first quarter of 2012. Several important economic indicators also gave encouraging news during the final months of the year, notably real global exports of goods and services, which grew at a 21.1% annualized rate in the fourth quarter.

United States
The U.S. economy grew 1.7% on average in 2011, significantly below the 3% growth recorded in 2010. At the beginning of the year, economic forecasters were projecting 3.2% growth, but the macroeconomic shocks in the first half and the deepening sovereign debt crisis in Europe revealed the extent to which the 2008 financial crisis had weakened the U.S. economy. Concerned about this situation, the Fed responded by easing monetary policy aggressively. In August, the Fed committed to maintaining its key interest rate at a very low level until mid-2013, provided that inflation remained under control and the resource utilization rate stayed low. In September, as part of a program called Operation Twist, it also extended the average maturity of its bond portfolio. By exerting this kind of pressure to lower interest rates, the Fed is trying to create a growth dynamic for the U.S. economy so that it will be strong enough to absorb the impact of consumer debt reduction and a potential tightening of fiscal policy after the presidential election.

In the real estate market, housing starts increased, but only in the multiresidential sector. While inventories of houses for sale have declined slightly, they remain high and are even higher once data is included on properties that are in default but that banks are keeping off the market for fear of driving prices down even further. The labour market had a better year: the unemployment rate fell from 9.4% at the end of 2010 to 8.5% one year later, with 1.8 million jobs created in 2011, compared to 1.0 million jobs in 2010. Despite these gains, real personal disposable income grew only 1.3%. In fact, the great majority of the benefits of economic growth went to businesses, with the profit-to-GDP ratio reaching a record 13%. Despite this profitability, the ratio of investments as a percentage of profits dropped to a 40-year low. Given consumers' debt reduction and the prospect of fiscal austerity, businesses turned to other strategies, such as share buybacks and higher dividends.

Eurozone
Economic activity in the eurozone grew 1.5% in 2011, compared to 1.9% in 2010. Eight of the 17 eurozone countries slipped into recession in the second half of 2011. Apart from a particularly difficult international economic environment, the deteriorating situation in the region was due mainly to a deepening sovereign debt crisis. This situation forced several countries to implement additional fiscal austerity measures to try to bring their debt levels down to more sustainable levels. Since the economic indicators continued to deteriorate, in the spring, financial markets began to have serious doubts about the sustainability of debt levels in several heavily indebted countries. As a result, the borrowing costs of these countries and of private European banks rose sharply, prompting the ECB to intervene on several fronts in an attempt to calm the financial markets. As part of the Securities Markets Programme launched in 2010, it continued to buy the bonds of sovereign countries on the secondary market. Then, in November, it lowered its key interest rate by 25 b.p. (0.25%). It did the same in December, in addition to announcing extraordinary measures to support European bank and interbank lending. It gave financial institutions access to an unlimited amount of funding at a low interest rate, it expanded the universe of securities that can be given as collateral for the loans it grants to banks and it lowered the required reserve ratio from 2% to 1%.

Macroeconomic Environment

Japan
The earthquake and tsunami of March 11 practically destroyed northeastern Japan and took the lives of over 15,000 people. It also caused GDP to fall 0.7% in 2011. The export sector was hit especially hard, with Japan recording a negative trade balance, its first since 1980. Imports surged as the country set about rebuilding and began purchasing abroad goods that had previously been produced in the devastated region. Imports of natural gas jumped to fuel power plants that had been brought online after the shutdown of many nuclear plants. As for exports, the Japanese had to deal with a rising yen in a difficult global environment.

Emerging economies
After reaching 8.1% in 2010, real GDP growth in the emerging Asian economies[1] slowed to 6.5% in 2011. Many of these countries had faced rising inflation in 2010, mainly because of overheated economies; consequently Asian monetary authorities raised their key interest rates and tightened credit conditions to slow economic growth to a more sustainable level.

In China, economic growth fell from 10.4% in 2010 to 9.2% in 2011. In Brazil, economic growth slowed even more, to 2.7% in 2011 compared to 7.5% one year earlier. In India, households were hit especially hard by higher food and energy prices at the start of the year. Economic growth slowed to 7.1%, compared to 8.5% in 2010.

In fact, the combined effects of macroeconomic shocks around the world and monetary tightening finally slowed economic growth somewhat more than was initially expected in some countries. This situation prompted the monetary authorities in China and Brazil to begin reversing their tightening policies. In contrast, at the end of 2011 India was maintaining a policy of monetary tightening since inflationary pressures remained high.

WHAT IS IN STORE FOR 2012?

Our analyses suggest that in 2012 the global economy will continue to suffer from the consequences of the financial crisis, and that most developed economies will continue to repair their balance sheets. History shows that financial crises are followed by many years of balance-sheet deleveraging. The result is weak economic growth.

In Canada, economic growth will be undermined by the slow recoveries of our main trading partners, mainly the U.S. and Europe, as well as a strong Canadian dollar and household balance sheet deleveraging. The outcome will be slower growth in consumption and less activity in the residential real estate sector. GDP growth should therefore be under 2% in 2012.

In Québec, GDP growth should be lower – approximately 1.5% – while the manufacturing sector will most likely continue to be penalized by the strength of the Canadian dollar. Inflation in Canada should fall to 1.7% by the end of the year, but changes in the price of crude oil could derail this forecast, particularly in the event of open conflict in the Middle East.

After having gone through a period rife with uncertainty in mid-2011, the U.S. economy should continue growing in 2012, sustained by gradual improvements in the labour market, healthier banks and rising consumer credit. GDP growth should therefore accelerate slightly, to around 2%.

Europe, which entered a recession in 2011 mainly due to tighter fiscal policies in the indebted countries, may not see growth again until the end of 2012 or the beginning of 2013. Furthermore, in all likelihood any recovery will be modest. Greece's structural problems have not yet been resolved, but the measures announced by the ECB should prevent contagion in the other countries that are in trouble as long as their governments implement credible reforms.

The emerging economies should be able to maintain growth rates near their potential GDP, making use of their monetary and fiscal leeway, as necessary.

1. We consider the following emerging economies to be part of emerging Asia: China, Hong Kong, India, Indonesia, South Korea, Malaysia, the Philippines, Thailand, Taiwan and Singapore.

Overall Portfolio

HIGHLIGHTS

01 The 17 specialized portfolios available to depositors are grouped together into four categories that are representative of the risk-return profile.

02 Eleven specialized portfolios are actively managed and six others are indexed.

03 In 2011, the Caisse reduced its equity exposure and increased its positions in inflation-sensitive investments.

04 As at December 31, 2011, the proportion of total assets invested in Canada stood at 59.6%.

The Caisse offers depositors the ability to allocate their funds across various specialized portfolios, each consisting of securities from one asset class. An investment policy sets out the management approach and parameters for each portfolio regarding its investment universe, benchmark index, performance and value-added objectives (in the case of an actively managed portfolio) – in addition to risk monitoring with clearly defined concentration and risk limits.

SPECIALIZED PORTFOLIOS

As at December 31, 2011, the Caisse offered its depositors 17 specialized portfolios split into four broad risk-return profile asset classes (see Table 7):

- The **Fixed Income asset class** reduces the portfolio's overall risk level and helps match depositors' assets to liabilities. It comprises four portfolios.
- The **Inflation-Sensitive Investments asset class** provides exposure to markets whose income is generally indexed to inflation. This can partly hedge against the inflation risk associated with the liabilities of many depositors. It comprises three portfolios.
- The **Equity asset class** essentially enhances the expected long-term returns of depositors. It comprises seven portfolios.
- The **Other Investments asset class** comprises three portfolios.

Active management and indexed management
Eleven of the 17 specialized portfolios, representing approximately 78% of net assets, are actively managed and offer the possibility of generating value added. The other six portfolios are index-managed, replicating market indexes. While focusing its efforts on active management of portfolios where it has comparative advantages, the Caisse offers depositors the opportunity to choose between actively managed or indexed international equity portfolios.

SPECIALIZED PORTFOLIO OFFERING
(as at December 31, 2011)

	ACTIVELY MANAGED	INDEXED
Fixed Income	Bonds Real Estate Debt	Short Term Investments Long Term Bonds
Inflation-Sensitive Investments	Infrastructure Real Estate	Real Return Bonds
Equity	Canadian Equity Global Equity Québec International Private Equity	U.S. Equity EAFE Equity Emerging Markets Equity
Other Investments	Hedge Funds Asset Allocation ABTN	

Overall Portfolio

INVESTMENT PHILOSOPHY

The Caisse invests the funds of its clients, the depositors. Its goal is to provide them with long-term returns, while taking into account their risk tolerance and the nature of their liabilities. In carrying out their activities, Caisse portfolio management teams adhere to an investment philosophy based on five broad principles.

1 INVEST WITH A LONG-TERM VISION

- Take advantage of the Caisse's size and ability as a long-term investor in order to make the most of investment cycles and market inefficiencies, and gain access to the best investment opportunities.

2 MANAGE FUNDS ACTIVELY

- Favour internal management when the Caisse masters the business skills and has an in-depth understanding of value-creating levers and underlying risks.
- Favour operational asset management in those areas where the Caisse has the requisite expertise.
- Work with long-term partners whose interests are aligned with those of the Caisse and who contribute to the development of internal competencies.

3 PERFORM FUNDAMENTAL RESEARCH WITHIN THE CAISSE

- Develop a long-term view of major macroeconomic and market trends.
- Acquire a thorough understanding of the assets and their market environment.
- Perform a detailed analysis of the business models and the value of the companies held.

4 MANAGE RISKS IN A BALANCED AND PROACTIVE MANNER

- Ensure adequate diversification by asset class and risk factor.
- Proactively integrate risk management for all stages of the investment cycle.
- Actively manage the overall exposure to risk factors.

5 PROMOTE SOCIALLY RESPONSIBLE INVESTMENT

- Consider non-financial matters and investment risks.
- Encourage sound corporate governance practices.

OVERLAY STRATEGIES

In addition to its 17 specialized portfolios, the Caisse has offered overlay strategies since April 1, 2010, allowing each depositor to customize its currency risk exposure. Effective January 1, 2012, depositors may also adjust their exposure to the duration of investments using interest rate overlay mechanisms. The Caisse enhanced its advisory services accordingly to better assist depositors in establishing their investment policies and choosing effective hedging strategies, and in matching their assets to liabilities.

GEOGRAPHIC DIVERSIFICATION

In addition to investing in Québec and Canada, the Caisse is active in global markets with investments in a variety of asset classes. As at December 31, 2011, the proportion of total assets invested abroad was 40.4%, a 4.3% increase from the end of 2010 (see Table 8). Most of the Caisse's investments abroad were made in industrialized countries, mainly the U.S. The share of emerging markets continued to grow, with the Caisse's strategy of taking advantage of the higher economic growth in these countries.

GEOGRAPHIC BREAKDOWN OF TOTAL ASSETS[1]

(as at December 31 – as a percentage)

	2011	2010
Canada	**59.6**	63.9
United States	**19.8**	16.6
Eurozone	**6.7**	5.9
United Kingdom	**3.8**	4.0
Japan	**1.8**	1.8
Emerging markets	**5.0**	4.7
Other	**3.3**	3.1
Total	**100.0**	100.0

1. Based on the country of the company or issuer headquarters or, for real estate, on the geographical location of the assets.

CURRENCY HEDGING

Most of the investments made abroad in illiquid specialized portfolios, such as the Infrastructure, Real Estate and Private Equity portfolios, are hedged against currency fluctuations using foreign exchange hedging instruments. Moreover, effective April 1, 2010, the Caisse ceased hedging its liquid specialized portfolios, such as publicly traded securities portfolios. The Caisse subsequently established customized overlay strategies, which allow depositors to increase or reduce the currency exposure of their portfolios.

BENCHMARK INDEXES

For each specialized portfolio, except for the Asset Allocation and ABTN portfolios, a benchmark index serves to compare the results of the managers against the corresponding market. The following changes were made to the portfolio indexes:

- On January 1, 2011, the DEX Long Term Government Bond Index (Adjusted) was modified to increase the weighting of the Long Term Bond portfolio in provincial bonds. This weighting was increased again on January 1, 2012.
- On March 1, 2011, the Morningstar National Bank Québec Index was integrated into the Canadian Equity portfolio benchmark index to better represent the reality of the Québec economy within the portfolio.
- Effective January 1, 2012, the Real Estate Debt specialized portfolio index is the DEX Universe Bond Index. The sale of the international component of the portfolio was completed in 2011, warranting the withdrawal of the Giliberto-Levy portion (10%) of the benchmark index.

Table 9 (p. 26) presents the list of specialized portfolio benchmark indexes and their changes over four years.

Overall Portfolio

CHANGES IN BENCHMARK INDEXES OVER 4 YEARS
(as at December 31, 2011)

SPECIALIZED PORTFOLIO	BENCHMARK INDEX
SHORT TERM INVESTMENTS (Created July 1, 1998)	DEX 91 Day T-Bill
BONDS (Created October 1, 1996)	DEX Universe Bond (Adjusted) since July 1, 2010. Formerly DEX Universe Bond
LONG TERM BONDS (Created April 1, 2005)	DEX Long Term Government Bond (Adjusted) since January 1, 2011, formerly adjusted July 1, 2010. Formerly DEX Long Term Government Bond
REAL ESTATE DEBT (Created April 1, 1995)	Real Estate Debt (index consists of 90% DEX Universe Bond and 10% Giliberto-Levy Hedged) since January 1, 2010. Formerly 90% DEX Universe Bond and 10% Barclays CMBS B Hedged
REAL RETURN BONDS (Created January 1, 2004)	DEX Real Return Bond
INFRASTRUCTURE (Created July 1, 2010)	Infrastructures (index consists of a basket of infrastructure-related public securities, hedged)
REAL ESTATE (Created October 1, 1985)	Aon Hewitt – Real Estate (Adjusted) since January 1, 2010. Formerly Aon-Real Estate
CANADIAN EQUITY (Created July 1, 1995)	Canadian Equity (index consists of 90% S&P/TSX Capped and 10% Morningstar National Bank Québec Index) since March 1, 2011. Formerly S&P/TSX Capped
GLOBAL EQUITY (Created April 1, 2010)	MSCI ACWI Unhedged
QUÉBEC INTERNATIONAL (Created July 1, 1999)	Québec International (index consists of 80% DEX Québec Bond and 20% DEX 91 Day T-Bill, plus a basket of equity futures)
U.S. EQUITY (Created April 1, 2010)	S&P 500 Unhedged
EAFE EQUITY (Created April 1, 2010)	MSCI EAFE Unhedged
EMERGING MARKETS EQUITY (Created January 1, 1995)	MSCI EM Unhedged
PRIVATE EQUITY (Created July 1, 2003)	Private Equity (index consists of 70% State Street Private Equity Index Adjusted and 30% MSCI World, Hedged) effective since July 1, 2010. Formerly 60% S&P 500 Hedged and 40% MSCI EAFE.
HEDGE FUND (Created April 1, 2003)	Dow Jones Credit Suisse Hedge Fund Index Adjusted (Hedged)

BENCHMARK PORTFOLIO

The weighted average of the asset allocation established by the depositors' investment policies makes it possible to determine the composition of the Caisse's benchmark portfolio. As at December 31, 2011, the overall portfolio's asset allocation conformed to the parameters of the benchmark portfolio (see Table 10). During the year, the Caisse reduced its exposure to equities and increased its positions in inflation-sensitive investments.

Currency exposure

During the year, overlay strategies allowed the depositors to vary their currency exposure according to their portfolios and risk tolerance. As at December 31, 2011, the benchmark portfolio included 8.7% U.S. dollar exposure and 9.3% exposure to the basket of EAFE currencies.

COMPOSITION OF THE BENCHMARK PORTFOLIO AND CHANGES IN THE OVERALL PORTFOLIO

(percentage of depositors' net assets)

	Benchmark portfolio as at December 31, 2011[1]			Overall portfolio	
	Lower limit %	Benchmark portfolio %	Upper limit %	as at December 31, 2011 %	as at December 31, 2010 %
Fixed Income					
Short Term Investments	0.2	1.2	8.6	4.3	2.5
Bonds	21.4	26.4	33.2	26.2	26.4
Long Term Bonds	2.0	2.3	4.3	2.3	2.4
Real Estate Debt	2.9	5.9	8.5	4.2	5.6
Total		35.8		37.0	36.9
Inflation-Sensitive Investments					
Real Return Bonds	0.2	0.8	2.6	0.8	0.6
Infrastructure	1.2	3.9	7.0	3.6	2.9
Real Estate	7.0	10.7	14.0	11.5	11.0
Total		15.4		15.9	14.5
Equity					
Canadian Equity	8.5	12.9	17.5	11.7	12.7
Global Equity	1.9	5.8	9.4	6.8	3.9
Québec International	0.0	3.2	6.3	2.9	5.6
U.S. Equity	1.0	4.9	9.1	5.1	3.8
EAFE Equity	1.6	6.1	10.6	5.7	6.4
Emerging Markets Equity	1.0	3.9	6.4	3.7	3.8
Private Equity	6.5	9.8	13.0	9.9	11.5
Total		46.6		45.8	47.7
Other Investments					
Hedge Funds	0.1	2.2	3.6	2.1	2.2
Asset Allocation	0.0	0.0	1.0	0.8	0.4
ABTN	N/A	N/A	N/A	(1.6)	(1.7)
Total		100.0		100.0	100.0

1. The benchmark portfolio and its upper and lower limits are the result of the weighted average of the depositors' benchmark portfolios.

Analysis of Overall Performance

In a year marked by the European economic crisis and global uncertainty, market volatility increased dramatically, especially in the second half of the year. In this context, the Caisse's management teams combined offensive and defensive strategies to generate significant growth while protecting depositors' capital. As a result of their efforts and the risk management tools developed over the past two years, hedging positions were managed in a flexible manner as risks evolved. The volatility of the returns on the Caisse's overall portfolio was therefore reduced significantly.

HIGHLIGHTS

01 As at December 31, 2011, depositors' funds generated a weighted average return of 4.0%, with net investment results of $5.7 billion.

02 Of the 17 specialized portfolios, 13 posted positive results.

03 Three illiquid portfolios made a major contribution to absolute return, generating returns of 23.3% (Infrastructure), 11.0% (Real Estate) and 7.1% (Private Equity).

04 Annual returns for the seven main depositors varied between 2.8% and 8.1%.

As at December 31, 2011, the Caisse's overall portfolio had a weighted average return on depositors' funds of 4.0%, which is slightly less than the benchmark portfolio, which posted a return of 4.2%.

Thirteen of the 17 specialized portfolios had positive results in 2011 (see Table 12, p. 29). In particular:

- With a return of 10.4%, the four portfolios in the Fixed Income asset class generated net investment results of $5.7 billion.
- The 13.9% return for the three portfolios in the Inflation-Sensitive Investments asset class generated net investment results of $3.1 billion.
- The Private Equity portfolio generated net investment results of $1.1 billion, with a return of 7.1%. This return, which far exceeds the -7.2% return generated by publicly traded equity portfolios, made it possible to limit the decline in value for the Equity asset class to $3.3 billion.

CURRENCY EXPOSURE

As at December 31, 2011, the proportion of total assets invested outside Canada and exposed to currency fluctuations stood at 40.4%. A significant portion of the risk associated with this exposure, however, was hedged by currency derivatives. Considering these derivative instruments, the net exposure was less than 25%.

For 2011, the net foreign currency exposure made a positive contribution to the return on the Caisse's overall portfolio.

FOUR-YEAR RETURN

For the four years ended December 31, 2011, the Caisse generated an annualized return of -0.6%. This result is heavily influenced by the 2008 results, as is shown in Table 11. Since 2009, the Caisse has recorded positive annual returns of between 4.0% and 13.6%, for an annualized return over three years of 9.1%.

The -0.6% result for the four-year period is 215 b.p. (2.15%) below the benchmark index. The difference from the benchmark is mainly attributable to ABTN results and the Real Estate and Real Estate Debt portfolios, as well as asset allocation activities. During the period, the Short Term Investments, Bond, Infrastructure, Private Equity and Hedge Fund portfolios made a particularly positive contribution from a value-added standpoint.

DEPOSITORS' INDIVIDUAL RETURNS

The overall return is based on the weighted average return on depositors' funds. Accordingly, depositors obtain returns based on their investment policy, which determines the proportion of funds invested in each specialized portfolio. In 2011, the returns obtained by the seven main depositors varied from 2.8% to 8.1%. For the four years ended December 31, 2011, the annualized returns of these same depositors ranged from -1.3% to 2.0%.

RETURNS BY SPECIALIZED PORTFOLIO

Table 14 (p. 31) shows the returns of the specialized portfolios relative to their benchmark index for the one-year and four-year periods ending December 31, 2011.

CAISSE RETURNS

(for periods ended December 31 – as a percentage)

	The Caisse's overall return[1]
2011	**4.0**
2010	13.6
2009	10.0
3 years (2009-2011)	9.1
2008	(25.0)
4 years (2008-2011)	(0.6)

1. Weighted average return on depositors' funds.

NET ASSETS AND RETURNS IN RELATION TO BENCHMARK INDEXES

(for periods ended December 31, 2011)

	1 year				4 years		
	Net assets	**Return**	**Net investment results**	**Spread**	Return	Net investment results	Spread
Categories	**$B**	**%**	**$M**	**(b.p.)**	%	$M	(b.p.)
Fixed Income	**58.8**	**10.4**	**5,670**	**92**	5.6	12,186	(87)
Inflation-Sensitive Investments	**25.2**	**13.9**	**3,081**	**(140)**	(1.7)	(1,724)	(286)
Equity	**72.8**	**(4.2)**	**(3,299)**	**(80)**	(3.0)	(8,268)	52
Hedge Funds	**3.3**	**0.5**	**4**	**94**	(1.1)	(453)	52
Asset Allocation	**1.2**	**N/A**	**121**	**N/A**	N/A	(1,673)	N/A
ABTN[1]	**(2.5)**	**N/A**	**93**	**N/A**	N/A	N/A	N/A
Total[2]	**159.0**	**4.0**	**5,746**	**(26)**	(0.6)	(4,587)	(215)

1. The ABTN portfolio financing exceeds the fair market value of its investments and mainly accounts for the negative net assets.
2. The total includes Overlay Strategies and cash activities.

Analysis of Overall Performance

OVERALL PORTFOLIO MANAGEMENT

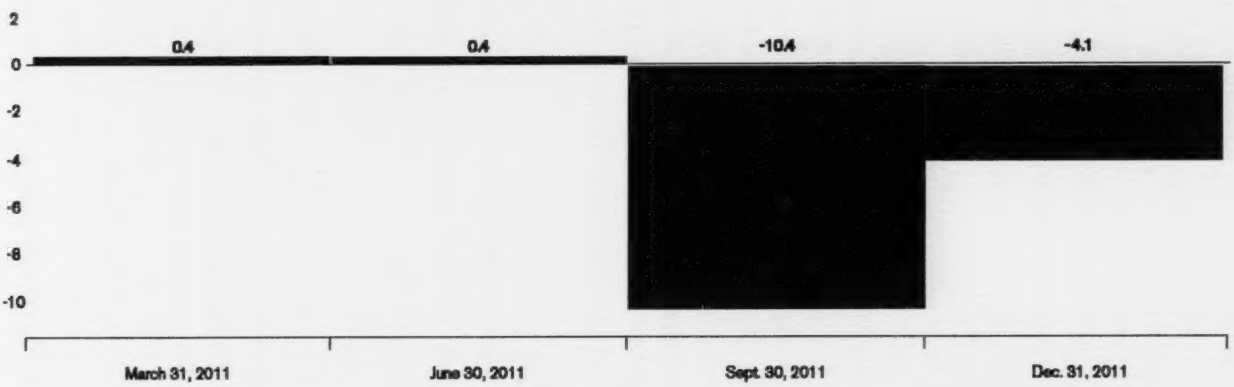
During the first six months of 2011 and considering the market environment, the asset allocation for the overall portfolio remained close to that of the benchmark portfolio. Equity market exposure remained at about 37%.

During the summer, because of the deteriorating economic outlook in the U.S., the downgrade of the U.S. debt rating by Standard & Poor's and the inability of European authorities to put in place a credible solution for the crisis in Greece, the Caisse took defensive action to protect the overall portfolio. In September, there was a risk that the crisis in Greece would spread to the rest of Europe, affecting both the banking sector and the credit quality of the peripheral countries. Due to the threat of a systemic crisis, the Caisse further reduced its equity market exposure, which stood at 30% at the end of September.

The European Summit held in October made it possible to officially confirm the need to recapitalize European banks and to recognize substantial losses on Greek debt. The systemic risk then gradually diminished with changes in government in both Greece and Italy, as well as the involvement of the European Central Bank in December. In this context, hedging positions were significantly reduced without being totally removed (see Figure 13).

These hedging positions on equity markets were supported, throughout the year, by prudent cash management. Cash therefore varied between $5 billion and $9 billion during the second half of the year.

EQUITY MARKETS – DIFFERENCE IN WEIGHTING WITH THE BENCHMARK PORTFOLIO
(in billions of dollars)



1st HALF

- Arab spring
- Tsunami in Japan
- Concerns about European sovereign debt
- Robust corporate profits

3rd QUARTER

- **United States:** Lack of agreement on a credible plan to reduce the country's debt in the medium term and a downgrade by rating agency Standard & Poor's from AAA to AA+, poorer economic outlook, downward revisions of past growth and Federal Reserve's commitment to maintain its key interest rate at a very low level until mid-2013
- **Europe:** Concerns exacerbated by political intransigence and fears of systemic risk

4th QUARTER

- **Europe:** Governments replaced in Greece and Italy and introduction of austerity budget measures and structural reforms in these countries, marked easing of monetary policy by the ECB, including two consecutive cuts of 25 b.p. to its key interest rate and extraordinary support for bank and interbank lending that allowed financial institutions to obtain unlimited funding
- **United States:** Improved economic outlook
- Lower probability of systemic risk, but basic problems remain

SPECIALIZED PORTFOLIO RETURNS IN RELATION TO BENCHMARK INDEXES

(for periods ended December 31, 2011 – as a percentage unless otherwise indicated)

Specialized portfolio	2011 Index[1]	1 year			4 years		
		Return	Index	Spread	Return	Index	Spread
		%	%	(b.p.)	%	%	(b.p.)
Fixed Income							
Short Term Investments[2]	DEX 91 Day T-Bill	1.1	1.0	6	1.6	1.4	25
Bonds	DEX Universe Bond (Adjusted)	10.1	9.8	29	7.4	7.1	31
Long Term Bonds[3]	DEX Long Term Government Bond (Adjusted)	18.6	18.6	(6)	9.2	9.4	(19)
Real Estate Debt	Real Estate Debt	15.0	9.5	545	(0.2)	5.4	(565)
Total		10.4	9.5	92	5.6	6.5	(87)
Inflation-Sensitive Investments							
Real Return Bonds[3]	DEX Real Return Bond	18.4	18.3	2	10.8	10.9	(9)
Infrastructure[4]	Infrastructure	23.3	12.7	1,059	3.4	0.7	266
Real Estate	Aon Hewitt – Real Estate (Adjusted)	11.0	15.6	(466)	(3.7)	1.4	(510)
Total		13.9	15.3	(140)	(1.7)	1.1	(286)
Equity							
Canadian Equity	Canadian Equity	(10.6)	(8.2)	(243)	(1.1)	(0.6)	(54)
Global Equity	MSCI ACWI (Unhedged)	(5.7)	(5.1)	(62)	N/A	N/A	N/A
Québec International	Québec International	1.6	1.9	(29)	(3.6)	(3.1)	(49)
U.S. Equity[2,5]	S&P 500 (Unhedged)	4.6	4.6	(2)	(2.6)	(1.3)	(134)
EAFE Equity[2,6]	MSCI EAFE (Unhedged)	(9.6)	(10.0)	34	(8.2)	(7.9)	(31)
Emerging Markets Equity[2]	MSCI EM (Unhedged)	(16.4)	(16.4)	0	(6.1)	(4.5)	(165)
Equity Markets		(7.2)	(6.3)	(90)	(3.5)	(3.0)	(56)
Private Equity	Private Equity	7.1	7.4	(30)	0.8	(5.0)	582
Total		(4.2)	(3.4)	(80)	(3.0)	(3.5)	52
Other Investments							
Hedge Funds	Dow Jones Credit Suisse Hedge Fund Index (Adjusted Hedged)	0.5	(0.5)	94	(1.1)	(1.6)	52
Asset Allocation[7]		$121 M	N/A	N/A	$(1,673)M	N/A	N/A
ABTN[7]		$93 M	N/A	N/A	N/A	N/A	N/A
Weighted average return on depositors' funds		4.0	4.2	(26)	(0.6)	1.5	(215)

1. The description of the indexes is presented in Table 9, p. 26.
2. These portfolios have been indexed since April 1, 2010.
3. These portfolios have been indexed since January 1, 2010.
4. This line includes the Investments and Infrastructures portfolio from January 1, 2008 to June 30, 2010, and the Infrastructure portfolio since July 1, 2010.
5. This line includes the U.S. Equity (Hedged) and U.S. Equity (Unhedged) portfolios from January 1, 2008 to March 31, 2010, and the U.S. Equity portfolio since April 1, 2010.
6. This line includes the Foreign Equity (Hedged) and Foreign Equity (Unhedged) portfolios from January 1, 2008 to March 31, 2010, and the Europe, Australasia & Far East (EAFE) Equity portfolio since April 1, 2010.
7. The returns in dollars are cumulative and net of operating expenses and other fees.

Analysis of Performance by Asset Class

FIXED INCOME

As at December 31, 2011, Fixed Income consisted of four portfolios. The Bond and Real Estate Debt portfolios, with total net assets of $48.3 billion, are actively managed. The Short Term Investment and Long Term Bond portfolios, with total net assets of $10.5 billion, are indexed.

HIGHLIGHTS

01 The overall return for the Fixed Income class was 10.4%, 92 b.p. (0.92%) above the benchmark index.

02 The Bond portfolio, which is actively managed, achieved a return of 10.1%, outperforming the benchmark index by 29 b.p. (0.29%).

03 The refocusing of Real Estate Debt activities was completed in 2011. The Real Estate Debt portfolio, which is actively managed, generated a return of 15.0%, outperforming its benchmark by 545 b.p. (5.45%).

04 A $408 million stake in the bonds issued by Health Montréal Collective Limited Partnership, which is building and managing the new Centre hospitalier de l'Université de Montréal (CHUM), is one of the Bond portfolio's new investments in Québec.

MARKET ENVIRONMENT

Bond Markets

The Canadian bond market had another year of good returns in 2011, for both government and corporate bonds. This is largely explained by the sharp decline in federal bond rates in Canada in 2011, essentially during the second half of the year (see Figure 15, p. 33). This decline is mainly attributable to the precarious political and economic situation in the rest of the world, coupled with a more favourable fiscal situation in Canada, which contributed to the Canadian government's AAA credit rating being maintained.

The global bond markets also had a positive year. The solvency of countries on Europe's southern periphery (Greece, Portugal, Spain and Italy) was a focus of concern from August onward. Although stabilization measures (debt buybacks on the secondary markets and bank recapitalizations) were implemented, a bleaker economic outlook and increased risk aversion in the second half of the year drove down long-term yields in major markets. Yields on 10-year government bonds in Canada, the U.S. and Germany ended the year at historical lows of less than 2%.

Real Estate Debt

The Canadian commercial real estate debt market also benefited from this situation and had a very positive year in 2011. With relatively stable mortgage rate spreads, the sharp decline in Canadian interest rates made it possible to achieve strong returns for the year. In addition, improvements in certain fundamental factors relevant to real estate, such as occupancy rates, enhanced the value of the assets underlying the loans. Moreover, the rate of defaults and level of losses on Canadian commercial mortgage loans remained very low.

PORTFOLIO RETURNS

For 2011, the overall return for Fixed Income was 10.4%, 92 b.p. (0.92%) above the benchmark index (see Table 16, p. 34).

Short Term Investments

Description

The Short Term Investment portfolio is invested in securities of the best quality and the highest liquidity. Its features are very close to those of its benchmark index, the DEX 91 Day T-Bill, composed of treasury bills issued by the Government of Canada. Considered to be risk-free, this portfolio generates a fairly low return but it does provide capital protection, considerable liquidity and diversification.

Returns

The Short Term Investment portfolio generated a return of 1.1%, which is 6 b.p. (0.06%) above the benchmark index (see Table 16, p. 34). This reflects the very low short-term rates. The targeted rate for one-day financing has been unchanged, at 1%, since September 2010.

Bonds

Description

The Bond portfolio consists mainly of bonds issued by the Government of Canada, the governments of the provinces of Canada and various public and private corporations. The portfolio provides a return commensurate with its low level of risk and is a source of current income and liquidity. It also provides diversification and helps protect the overall portfolio.

Strategy

The portfolio is actively managed, focusing on diversifying the sources of value added. The strategies implemented evolve with the economic and monetary cycles, and relative-value activities contribute regularly to returns.

Returns

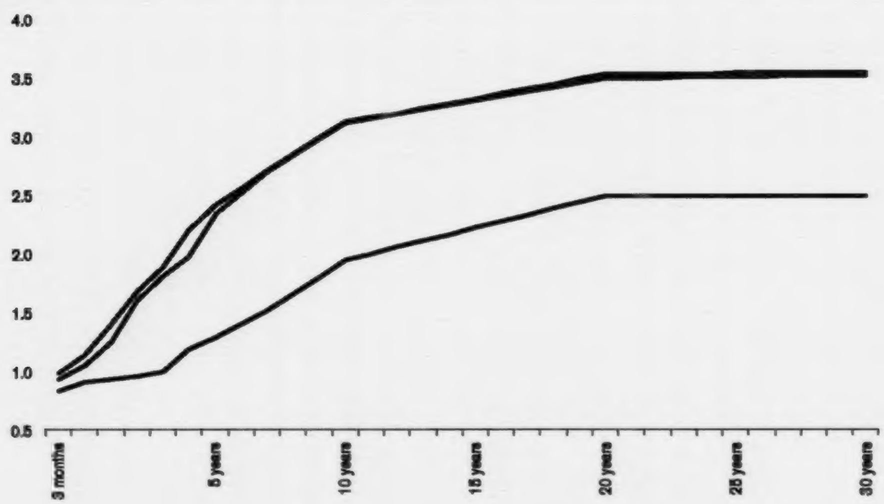
The Bond portfolio generated a return of 10.1%, or 29 b.p. (0.29%) above the benchmark index (see Table 16, p. 34). The decrease in medium- and long-term interest rates during the year had a positive impact on portfolio returns. Two-thirds of the total return stems from increases in value resulting from this decline. The value added provided by the portfolio comes from activities relating to corporate bonds. Active interest rate strategies subtracted value slightly.

A $408 million stake in the bonds issued by the Health Montréal Collective Limited Partnership, the builder and manager of the new Centre hospitalier de l'Université de Montréal (CHUM), is one of the Bond portfolio's new investments in Québec. This type of investment offers terms and yields that are especially well suited to the portfolio's long-term investment horizon. The managers also took advantage of the market opportunity to invest in Québec municipal bonds.

CANADIAN FEDERAL BOND RATES

(as a percentage)

- December 31, 2010
- June 30, 2011
- December 31, 2011



Analysis of Performance by Asset Class

Table 17 (p. 35) presents the DEX Bond Index returns according to maturity and issuer. As was the case in 2010, returns were heavily influenced by the drop in medium- and long-term interest rates. However, this decrease was more pronounced in 2011 and also affected the short-term segment of the curve, which explains the higher returns for all sub-indexes. The increase in rate spreads negatively affected returns on corporate bonds, however.

Long Term Bonds

Description

The Long Term Bond portfolio is indexed, that is, it seeks to achieve a return equivalent to the index that it replicates. The DEX Long Term Government Bond Index (Adjusted) is composed of 25% DEX Federal Long Term Bond Index, 25% DEX Long Term Provincial Bond Index and 50% DEX Long Term Québec Bond Index. The portfolio provides returns consistent with the low level of risk and generates current income.

Returns

The Long Term Bond portfolio posted a return of 18.6%, almost the same as the benchmark index (see Table 16). Close to 80% of the return is attributed to the decrease in long-term rates on government bonds in the portfolio. These rates declined from 4% to 3% and had a particularly positive impact on the returns for this portfolio, given its long duration.

Real Estate Debt

Description

The Real Estate Debt portfolio essentially includes Canadian commercial mortgages. It also includes bridge loans, lower-ranking mortgages and mortgage-backed securities (MBS). The portfolio is expected to generate a higher return than bonds and also generates high and relatively stable current income. The credit risk is low due to a prudent underwriting approach and the quality of the underlying assets.

Strategy

The portfolio is actively managed. The managers are able to carry out various securitization and syndication operations as well as acquire or sell mortgage assets to re-balance and diversify the portfolio or mitigate the risk of individual transactions. Since 2010, the portfolio's credit risk was significantly reduced by refocusing the portfolio strategy towards higher-quality Canadian assets.

Returns

The Real Estate Debt portfolio generated a return of 15.0%, or 545 b.p. (5.45%) above the benchmark index (see Table 16). This return is explained by the drop in Canadian mortgage rates, the current yields and the gain related to the orderly sale of international assets.

SPECIALIZED PORTFOLIO RETURNS – FIXED INCOME

(for periods ended December 31, 2011)

	1 year				4 years		
	Depositors' net assets $B	Return %	Index[1] %	Spread[2] (b.p.)	Return %	Index[1] %	Spread[2] (b.p.)
Short Term Investments[3]	**6.8**	**1.1**	**1.0**	**6**	1.6	1.4	25
Bonds	**41.6**	**10.1**	**9.8**	**29**	7.4	7.1	31
Long Term Bonds[4]	**3.8**	**18.6**	**18.6**	**(8)**	9.2	9.4	(19)
Real Estate Debt	**6.7**	**15.0**	**9.5**	**545**	(0.2)	5.4	(565)
Total	**58.8**	**10.4**	**9.5**	**92**	5.6	6.5	(87)

1. The description of the indexes is presented in Table 9, p. 26.
2. Compared to the benchmark indexes.
3. This portfolio has been indexed since April 1, 2010.
4. This portfolio has been indexed since January 1, 2010.

DEX BOND INDEX RETURNS

(as a percentage)

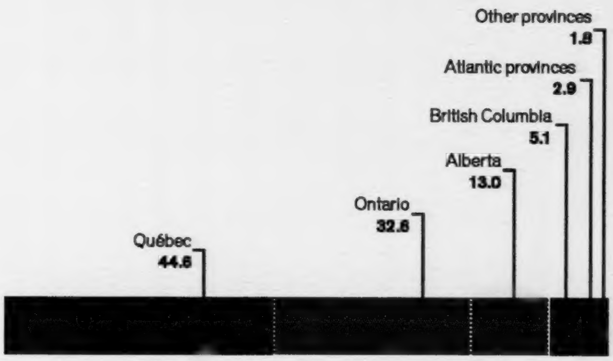
DEX Bond Indexes	Short Term	Medium Term	Long Term	Total	Short Term	Medium Term	Long Term	Total
				2011				2010
Federal	4.5	11.6	19.8	8.4	3.2	7.2	12.2	5.4
Provincial	5.1	11.5	18.2	13.2	3.8	7.8	11.8	8.6
Québec	5.4	11.3	18.2	13.6	3.7	7.9	11.8	8.9
Corporate	4.7	9.0	15.8	8.2	4.3	8.2	14.2	7.3
Universe	4.7	10.9	18.1	9.7	3.6	7.8	12.5	6.7

As at December 31, 2011, the Real Estate Debt portfolio was invested exclusively in Canadian assets, with 44.6% of its investments in Québec (see Figure 18).

As at December 31, 2011, investments in the office building sector represented the largest portion of the portfolio (see Figure 19).

GEOGRAPHIC BREAKDOWN – REAL ESTATE DEBT

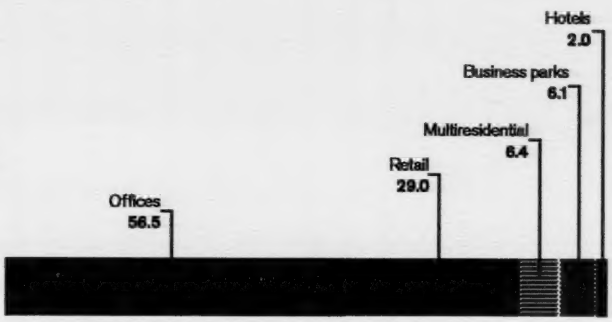
(as a percentage of fair value as at December 31, 2011)[1]



1. Percentages do not include the cash in the portfolio.

SECTOR BREAKDOWN – REAL ESTATE DEBT

(as a percentage of fair value as at December 31, 2011)[1]



1. Percentages do not include the cash in the portfolio.

Analysis of Performance
by Asset Class

INFLATION-SENSITIVE INVESTMENTS

As at December 31, 2011, Inflation-Sensitive Investments consisted of three portfolios. The Infrastructure and Real Estate portfolios, with total net assets of $24.0 billion, are actively managed. The Real Return Bond portfolio, with total net assets of $1.3 billion, is indexed.

HIGHLIGHTS

01 The overall performance of Inflation-Sensitive Investments was 13.9%, 140 b.p. (1.40%) below the benchmark index.

02 The Real Return Bond portfolio generated a return of 18.4%, in line with the benchmark index.

03 The return on the Infrastructure portfolio was 23.3%, which is 1,059 b.p. (10.59%) above the benchmark index. The portfolio's net assets increased from $4.3 billion to $5.8 billion.

04 The Real Estate portfolio generated a return of 11.0%, which is 466 b.p. (4.66%) below the benchmark index. The portfolio was repositioned in order to increase investments in the multiresidential property sector and decrease exposure to the hotel sector.

MARKET ENVIRONMENT

From December 2010 to December 2011, the inflation rate in Canada stood at 2.3% whereas the Bank of Canada's median inflation target is 2%. Inflation expectations therefore remained relatively stable during the year.

Real Return Bonds
Lower medium- and long-term rates benefited real return bonds in this market environment.

Infrastructure and Real Estate
Low interest rates and particularly volatile equity markets triggered a significant increase in the market's appetite for less liquid assets, such as infrastructure and real estate, as a result of the stable and high current income they offer and their lower risk profile relative to equities. In spite of the volatile credit market and the economic slowdown, projects and assets with excellent fundamentals continued to be able to attract financing at low rates, and allowed them to post high returns.

The resumption of activity in the infrastructure sector that began in 2010 continued in 2011, with a marked increase in investment in this asset class. Globally, there was a total of 144 infrastructure funds in the fourth quarter, with a targeted amount of $93 billion.[1]

This phenomenon was also seen in real estate. The solid performance recorded in Canada in 2010 continued for commercial real estate assets. In the United States and Europe, investments in certain market segments of commercial real estate, completely offset the losses incurred during the 2008 financial crisis. In Europe, sales of real estate assets by banks and governments resulted in increased offerings on the market. Prices therefore stabilized somewhat toward year end.

1. Source: Preqin

PORTFOLIO RETURNS

The overall return on Inflation-Sensitive Investments was 13.9% in 2011, which is 140 b.p. (1.40%) below the benchmark index (see Table 20).

Real Return Bonds

Description

The Real Return Bond portfolio is indexed, that is, it seeks to achieve a return equivalent to the index that it replicates. The DEX Real Return Bond Index is composed of bonds issued by the governments of Canada, Québec, Ontario and Manitoba. The portfolio provides returns in proportion to its low level of risk and protects against inflation.

Returns

The Real Return Bond portfolio generated a return of 18.4%, in line with the benchmark (see Table 20). Of this return, 2.9% is due to inflation. Most of the returns are attributable to real interest rates during the year, which decreased from 1.1% in 2010 to 0.3% in 2011, a decline of 0.8%. The rate decrease had a particularly positive effect on returns for this portfolio given its long duration.

Infrastructure

Description

The Infrastructure portfolio includes investments offering a high current yield, with stable and predictable long-term revenues, while aiming to hedge against long-term inflation. It mainly includes direct stakes in companies that operate airports, oil, gas and electricity transmission and distribution systems, water distribution systems and passenger transportation contracts and concessions.

Strategy

The portfolio's strategy involves making direct, long-term investments with strategic and financial partners. Active management targets high-quality companies that stand out due to their lower risk profile and reduced sensitivity to economic fluctuations. The portfolio is composed of regulated, monopolistic assets and assets with revenues under long-term contracts, generating stable and high cash flows that are predictable in the long term.

Returns

The Infrastructure portfolio generated a return of 23.3%, which is 1,059 b.p. (10.59%) above the benchmark index (see Table 20). This return, which exceeds that expected in the long term, stems from the positive operational performance of the companies held and the decrease in long-term interest rates. In particular, the performance of assets in the energy and airport services sectors, including Trencap (Noverco) and BAA, largely explain this level of performance. The value of the assets in the portfolio at year end was confirmed by certain transactions carried out by managers and industry players during the year.

SPECIALIZED PORTFOLIO RETURNS – INFLATION-SENSITIVE INVESTMENTS
(for periods ended December 31, 2011)

	1 year				4 years		
	Depositors' net assets $B	Return %	Index[1] %	Spread[2] (b.p.)	Return %	Index[1] %	Spread[2] (b.p.)
Real Return Bonds[3]	1.3	18.4	18.3	2	10.8	10.9	(9)
Infrastructure[4]	5.8	23.3	12.7	1,059	3.4	0.7	266
Real Estate	18.2	11.0	15.6	(466)	(3.7)	1.4	(510)
Inflation-Sensitive Investments	25.2	13.9	15.3	(140)	(1.7)	1.1	(286)

1. The description of the indexes is presented in Table 9, p. 26.
2. Compared to the benchmark indexes.
3. This portfolio has been indexed since January 1, 2010.
4. This line combines the Investments and Infrastructures portfolio from January 1, 2008 to June 30, 2010, and the Infrastructure portfolio since July 1, 2010.

Analysis of Performance by Asset Class

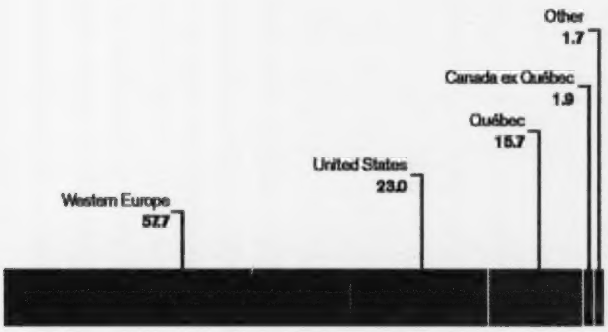
New investments totaling $1.6 billion were made in the portfolio in 2011. They include two major investments: €360 million in Fluxys, an infrastructure transportation company operating in Belgium that supplies and ensures the sound operation of the natural gas market in Northwestern Europe, and US$850 million in Colonial Pipeline, the largest refined-petroleum-product pipeline in the U.S. Managers also carried out transactions with third parties regarding certain assets and took advantage of extremely low interest rates to complete certain refinancings.

Investments in Western Europe accounted for the largest portion of the Infrastructure portfolio as at December 31, 2011 (see Figure 21). The managers have in-depth knowledge of this market, where the Caisse has had private infrastructure holdings for many years, and rely on the support of excellent partners to make investments.

From a sector standpoint, Figure 22 shows that investments in the Energy and Industry sectors accounted for most of the portfolio at the end of 2011. The portfolio's assets in the Energy sector relate to energy infrastructure (oil, natural gas and electricity transportation and distribution systems) and have no direct exposure to underlying commodity prices.

GEOGRAPHIC BREAKDOWN – INFRASTRUCTURE

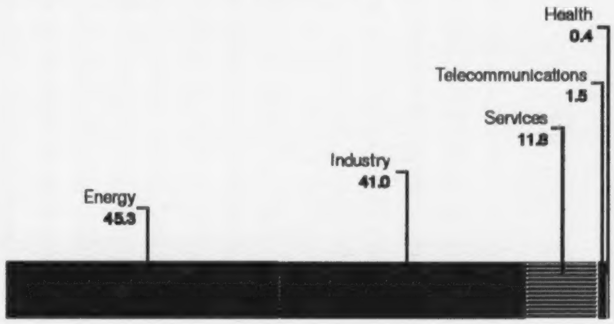
(as a percentage of fair value as at December 31, 2011)[1]



1. Percentages do not include the cash in the portfolio.

SECTOR BREAKDOWN – INFRASTRUCTURE

(as a percentage of fair value as at December 31, 2011)[1]



1. Percentages do not include the cash in the portfolio.

Real Estate

Description

The Real Estate portfolio is mainly composed of direct investments in retail, office and multiresidential properties. Investments are also made in private real estate investment funds and hotels.

The portfolio is expected to generate a high return and its current yield is higher than that of fixed-income securities. With little correlation or negative correlation with other specialized portfolios, the Real Estate portfolio provides diversification and hedges against high inflation.

Strategy

The Real Estate portfolio is actively managed using a diversification approach and focuses on investments in high-quality real estate situated mainly in the best markets. The overall strategy consists of making prudent and profitable long-term investments in real estate.

In 2011, portfolio managers implemented a strategy to reposition the portfolio based on a risk-return profile that better takes depositors' needs and market fundamentals into account. This strategy led to increased investments in the multiresidential property sector and decreased exposure to the hotel sector.

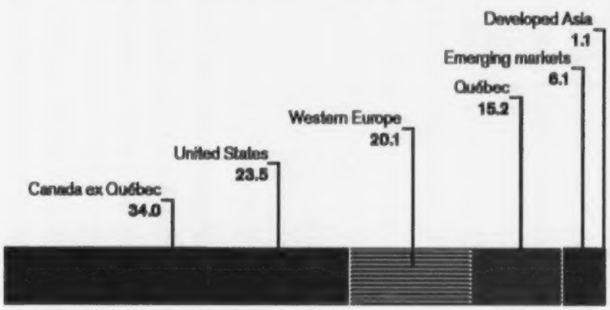
Returns

As at December 31, 2011, the Real Estate portfolio generated a return of 11.0%, 466 b.p. (4.66%) below the benchmark index (see Table 20, p. 37). This return is mainly attributable to increased values of retail and office buildings in Canada and the U.S. The high cash levels in the portfolio, close to $4 billion at the end of 2011, account for approximately half of the difference between the portfolio's return and its index. The other half stems from weak returns on non-strategic assets, such as hotels, funds and other equities held in the portfolio, compared to retail space, office buildings and multiresidential property sector, which the Caisse intends to emphasize in the future.

In 2011, portfolio acquisitions amounted to $1.6 billion. Closed transactions include the acquisition of several multiresidential properties, including the Rockhill complex in Montréal and The Park Kiely in San Jose, California, as well as increased investments in several projects in Brazil and the signing of an agreement to purchase the Petra office tower (under construction) in Boulogne-Billancourt, Paris. Moreover, several development projects have been approved, such as those for Eighth Avenue Place (Phase II) in Calgary and Metrotown III in Vancouver. There were also sales of hotels and multiresidential buildings in Canada and the U.S., as well as office buildings in New York and Boston. These sales, totaling $3.8 billion, generated liquidity that will be used to fund future investments.

GEOGRAPHIC BREAKDOWN – REAL ESTATE

(as a percentage of fair value as at December 31, 2011)[1]



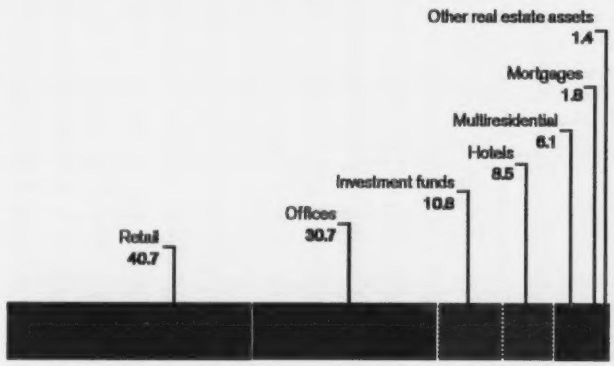
1. *Percentages do not include the cash in the portfolio.*

As at December 31, 2011, investments in Canada accounted for 49.2% of the fair value of the portfolio while investments in the U.S. represented 23.5% of this value compared to 47.3% and 23.8%, respectively, as at December 31, 2010 (see Figure 23).

As at December 31, 2011, retail assets represented the largest portion of the portfolio, followed by office buildings (see Figure 24).

SECTOR BREAKDOWN – REAL ESTATE

(as a percentage of fair value as at December 31, 2011)[1]



1. Percentages do not include the cash in the portfolio.

Analysis of Performance by Asset Class

EQUITY

The Equity asset class consisted of seven portfolios as at December 31, 2011. The Canadian Equity, Global Equity, Québec International and Private Equity portfolios, with total net assets of $49.7 billion, are actively managed. The U.S. Equity, EAFE Equity and Emerging Markets Equity portfolios, with total net assets of $23.1 billion, are indexed.

HIGHLIGHTS

01 Equity reported an overall return of -4.2%, 80 b.p. (0.80%) below the benchmark index. Net assets totaled $72.8 billion as at December 31, 2011.

02 The Morningstar National Bank Québec Index, comprised exclusively of Québec businesses, was integrated into the Canadian Equity portfolio's benchmark index.

03 The U.S. Equity portfolio, which is indexed and not hedged against currency risk, generated an absolute return of 4.6%, benefiting in particular from the rise of the U.S. dollar.

04 The Private Equity portfolio generated a return of 7.1%, far outperforming equity indexes but slightly below (-30 b.p. or -0.30%) the returns of its benchmark index.

MARKET ENVIRONMENT

Equity Markets

After a rather promising start to the year, most equity markets recorded major losses in the third quarter. These losses were mainly due to uncertainty regarding various factors:

- Sovereign debt problems in Europe.
- Political debate in the U.S. over raising the debt ceiling, followed by the downgrade of the U.S. sovereign credit rating from AAA to AA+ by Standard & Poor's.
- Significant downward revisions of GDP data in the United States.
- A possible economic slowdown in emerging markets.

Over all, despite the average increase in earnings of publicly listed companies, most major equity indexes declined in 2011 (see Figure 26, p. 42):

- The Canadian market declined 8.7% (S&P/TSX);
- Markets in Europe, Australasia, the Far East (EAFE) declined by 10.0% (MSCI EAFE);
- Markets in emerging countries decreased by 16.4% (MSCI EM).

Within EAFE markets, the European markets were especially hard hit, posting declines of close to 16%. Of all major market indexes, only the S&P 500 ended the year in positive territory, with an increase of 4.6%.

European markets mainly felt the ill effects of the sovereign debt crisis, which raised some very serious concerns regarding the health of the banks in the eurozone. Emerging markets and Canada declined as a result of uncertainty surrounding global growth. The U.S. market managed to resist declines due to its more defensive sector mix and reassuring economic news at the end of the year.

Private Equity

The Private Equity market saw two trends in 2011. The first six months were marked by a high level of activity characterized by a large number of refinancings, mergers and acquisitions and initial public offerings.

The situation was completely reversed in the second half of the year. The financing market completely dried up. The mergers and acquisitions and initial public offering markets also slowed significantly. However, market conditions were positive for development capital transactions since companies sought quality partners to achieve and ensure their future growth.

PORTFOLIO RETURNS

The overall return on Equity for 2011 was -4.2%, which is 80 b.p. (0.80%) below the benchmark index (see Table 25).

Canadian Equity

__Description__

The Canadian Equity portfolio is mainly composed of the securities of public companies. It offers the possibility of a long-term return exceeding that of fixed-income securities while hedging against long-term inflation.

__Strategy__

The portfolio is actively managed with a long-term horizon. Security selection is based on a qualitative analysis of the fundamental value of businesses, supported by a macroeconomic analysis. This approach is rounded out with absolute-performance strategies having a low correlation with the equity market.

SPECIALIZED PORTFOLIO RETURNS – EQUITY

(for periods ended December 31, 2011)

	1 year				4 years		
	Depositors' net assets $B	Return %	Index[1] %	Spread[2] (b.p.)	Return %	Index[1] %	Spread[2] (b.p.)
Canadian Equity	18.6	(10.6)	(8.2)	(243)	(1.1)	(0.6)	(54)
Global Equity	10.9	(5.7)	(5.1)	(62)	N/A	N/A	N/A
Québec International	4.5	1.6	1.9	(29)	(3.6)	(3.1)	(49)
U.S. Equity[3,4]	8.1	4.6	4.6	(2)	(2.6)	(1.3)	(134)
EAFE Equity[3,5]	9.1	(9.6)	(10.0)	34	(8.2)	(7.9)	(31)
Emerging Markets Equity[3]	5.9	(16.4)	(16.4)	0	(6.1)	(4.5)	(165)
Equity Markets	57.1	(7.2)	(6.3)	(90)	(3.5)	(3.0)	(58)
Private Equity	15.7	7.1	7.4	(30)	0.8	(5.0)	582
Equity	72.8	(4.2)	(3.4)	(80)	(3.0)	(3.5)	52

1. The description of the indexes is presented in Table 9, p. 26.
2. Compared to the benchmark indexes.
3. These portfolios have been indexed since April 1, 2010.
4. This line includes the U.S. Equity (Hedged) and U.S. Equity (Unhedged) portfolios from January 1, 2008 to March 31, 2010, and the U.S. Equity portfolio since April 1, 2010.
5. This line includes the Foreign Equity (Hedged) and Foreign Equity (Unhedged) portfolios from January 1, 2008 to March 31, 2010, and the Europe, Australasia & Far East (EAFE) Equity portfolio since April 1, 2010.

Analysis of Performance by Asset Class

Returns

The Canadian Equity portfolio generated a return of -10.6%, which is 243 b.p. (2.43%) below the benchmark index (see Table 25, p. 41). This return is far below that of the U.S. Equity Index and shows that Canadian equity markets are strongly correlated with emerging markets. The difference between the return on the portfolio and its benchmark index is attributable to two factors:

- Some of the portfolio's long-term positions, which relate to urbanization in emerging countries and the strong demand for basic materials, did not perform as well in 2011. These positions have paid off over the long-term, however, and should continue to do so in the future.
- The portfolio's under-exposure to high-dividend-yielding companies, which outperformed in 2011 due to the substantial drop in interest rates.

On March 1, 2011, the new Morningstar National Bank Québec Index, comprised of Québec businesses, was integrated into the benchmark index for the Canadian Equity portfolio to better represent the reality of the Québec economy within the portfolio. The weighting of Québec securities within the portfolio increased by 4% in 2011, to 21%. In comparison, Québec companies account for only 11% of the S&P/TSX Index.

Global Equity

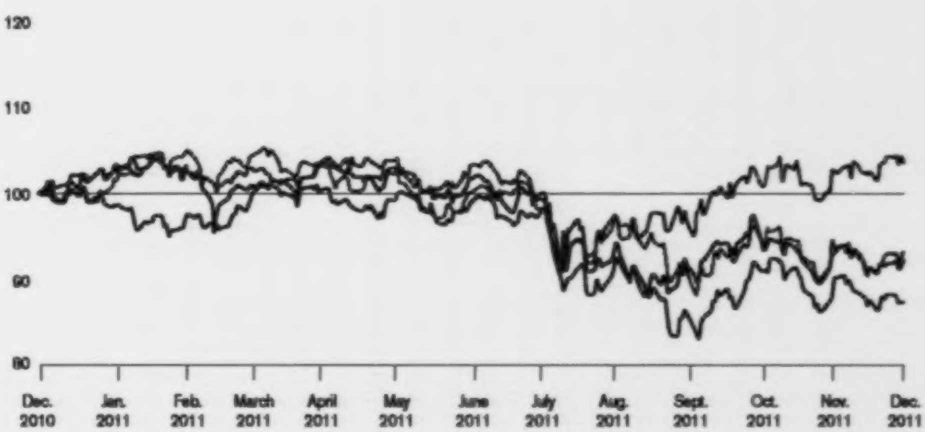
Description

The Global Equity portfolio consists of securities traded in markets in the countries that make up the MSCI ACWI (United States, Canada, Europe, Australasia, Far East and emerging markets). It offers the possibility of a long-term return exceeding that of fixed-income securities while providing geographic diversification and hedging against long-term inflation.

DEVELOPMENTS IN EQUITY MARKETS IN 2011
(December 31, 2010 = 100, in Canadian dollars)

- S&P/TSX
- MSCI EM
- S&P 500
- MSCI EAFE

Source: Rimes



Strategy

The portfolio is actively managed using four different approaches: internally managed sector-specific portfolios, absolute return strategies with low equity market correlation, externally managed sector- and country-specific mandates and investments on the Shanghai and Shenzhen stock exchanges as a Qualified Foreign Institutional Investor (QFII), a designation that has been granted to the Caisse by the regulatory authorities in China.

In 2011, the managers finished implementing their new external management strategy, involving specialized managers in countries such as China, India and Brazil and specific sectors of the economy.

Returns

The Global Equity portfolio generated a return of -5.7%, 62 b.p. (0.62%) below its benchmark index (see Table 25, p. 41). The difference with the index is mainly attributable to positions in the healthcare, industrial products and natural resources sectors.

Québec International

Description

The Québec International portfolio is composed of futures on world indexes, weighted according to the GDP of the various countries. Futures are capitalized on the basis of 20% 91-day treasury bills and 80% Québec government bonds. The portfolio offers the possibility of a long-term return that exceeds that of stock market indexes while providing current income. Forecast to close, the activities of this portfolio will cease on December 31, 2012.

Returns

The Québec International portfolio generated a return of 1.6%, 29 b.p. (0.29%) below the benchmark index (see Table 25, p. 41). This return exceeds that of the Global Equity portfolio, primarily due to high returns on bonds included in the portfolio. The absence of emerging countries in this portfolio was also a favourable factor in 2011.

U.S. Equity

Description

The U.S. Equity portfolio is indexed, that is, it seeks a return equivalent to the index that it replicates. The S&P 500 Index comprises 500 public companies representing approximately 75% of U.S. equity market capitalization. This portfolio offers the possibility of a long-term return that exceeds the yield on fixed-income securities while hedging against long-term inflation.

Returns

The U.S. Equity portfolio generated a return of 4.6%, practically identical to its benchmark index (see Table 25, p. 41). Unhedged against currency risks, it benefited from the strength of the U.S. dollar against the Canadian dollar.

EAFE Equity

Description

This portfolio is indexed, that is, it seeks a return equivalent to the index that it replicates. The MSCI EAFE Index is composed of the equity market indexes of 22 developed countries: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom. The portfolio offers the possibility of a long-term return that exceeds that of fixed-income securities while providing geographic diversification and hedging against long-term inflation.

Returns

The EAFE Equity portfolio generated a return of -9.6%, 34 b.p. (0.34%) above the benchmark index (see Table 25, p. 41). This difference with the index is mainly attributable to the fact that the realized tax rate on dividends in some countries is lower than the rate used to calculate the MSCI EAFE Index. In 2011, there was a disparity among returns for index components, with declines of 15.6% for countries in the European monetary union and 12.2% for Japan, compared to a decrease of 0.1% in the U.K.

Emerging Markets Equity

Description

This portfolio is indexed, that is, it seeks a return equivalent to the index that it replicates. The MSCI EM Index is composed of the equity market indexes of 21 emerging countries: Brazil, Chile, China, Colombia, the Czech Republic, Egypt, Hungary, India, Indonesia, Malaysia, Mexico, Morocco, Peru, the Philippines, Poland, Russia, South Africa, South Korea, Taiwan, Thailand and Turkey. The portfolio offers the possibility of long-term returns that exceed the return on equities of developed countries while providing geographic diversification.

Returns

The Emerging Markets Equity portfolio generated a return of -16.4%, identical to the return of its benchmark index (see Table 25, p. 41). The equity markets of emerging countries all recorded major declines in 2011: -15.4% in Asia, -17.4% in Latin America and -19.6% in Eastern Europe.

Analysis of Performance by Asset Class

Private Equity

Description

Almost 45% of the Private Equity portfolio is composed of direct stakes in companies operating in various economic sectors, especially defensive sectors and niches offering stable and predictable cash flows. It also includes stakes in profitable investment funds making it possible to position the Caisse strategically in certain industries and geographic areas. The portfolio offers the possibility of returns in excess of those of equity markets over the long term.

Strategy

The portfolio is actively managed, focusing on industries or types of investments based on economic cycles and market inefficiencies: leveraged buyout financing, development capital, subordinated debt and distressed debt activities carried out with specialized funds. The companies targeted for investment stand out due to their value-creation strategy, competitive advantages, resilient financial results and moderate use of leverage. The managers pay close attention to the quality of the management teams and the partners with whom they associate in order to plan for operational improvements that can improve returns resulting from company growth.

Returns

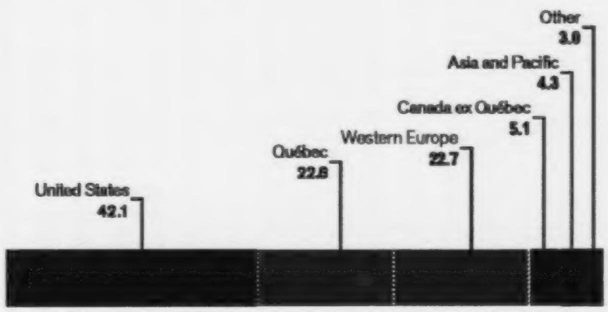
The Private Equity portfolio generated a return of 7.1%, which largely exceeds the returns on equity markets but is slightly below (-30 b.p. or -0.30%) the return on the benchmark index (see Table 25, p. 41). From a longer-term perspective, which is more representative of this type of investment, the portfolio's return exceeded that of the benchmark index for most periods. Leveraged buyouts and investment funds generated most of the returns.

During the first six months of 2011, the managers took advantage of favourable market conditions to reposition the managed funds with transactions on the secondary market, resulting in net cash inflows in excess of $1 billion. The companies held were very active on financial markets, taking advantage of low rates to reduce funding costs and review loan maturities. This, together with the internally generated capital, also reduced the risk profile of holdings, thereby further improving the portfolio quality.

New investments in the portfolio totaled $2.5 billion, including $1.3 billion in direct investments ($650 million in Québec), and $1.2 billion in funds. Direct stakes in SPIE (€160 million), Industrial Alliance ($100 million – see box, p. 73), Kruger ($215 million), GENIVAR ($80 million), and in a Cascades Group project ($80 million) are some of the investments made in 2011.

Figure 27 shows that investments in the U.S. accounted for 42.1% of the fair value of the portfolio as at December 31, 2011, followed by investments in Québec (22.8%) and Western Europe (22.7%).

GEOGRAPHIC BREAKDOWN – PRIVATE EQUITY
(as a percentage of fair value as at December 31, 2011)[1]



1. Percentages do not include the cash in the portfolio.

OTHER INVESTMENTS

HIGHLIGHTS

01 The Hedge Fund portfolio generated a return of 0.5%, 94 b.p. (0.94%) above the benchmark index.

02 The Hedge Fund portfolio management team continued to adopt the best practices on governance advocated by the Hedge Fund Standards Board.

03 The Asset Allocation portfolio contributed $121 million to net investment results.

04 The ABTN portfolio contributed $93 million to net investment results.

MARKET ENVIRONMENT

Hedge Funds

The hedge fund industry recorded net cash inflows of US$70.6 billion[1] in 2011, compared to US$55.5 billion in 2010, which reflects investors' interest in this asset class. However, due to economic uncertainty and considerable market volatility, 2011 proved to be a difficult year for several strategies. This was especially true for managers focused on fundamental analysis of companies and sectors.

PORTFOLIO RETURNS

Hedge Funds

Description

The Hedge Fund portfolio is composed of investments in external hedge funds. It provides the possibility of a return that is higher than the return on bonds but lower than the return on equities, with a view to ensuring preservation of capital. It also provides diversification due to its low correlation with traditional asset classes, such as bonds and listed equities.

Strategy

The portfolio is actively managed with emphasis on diversification of strategies, selection of external managers and operational due diligence audits.

In 2011, the portfolio management team took a defensive stand in order to preserve capital, preferring funds that follow macro trends and equity funds with low market exposure. The team also continued to adopt the best practices on governance advocated by the Hedge Fund Standards Board, in particular regarding the transparency of assets included in the portfolio.

Returns

As at December 31, 2011, the Hedge Fund portfolio generated a return of 0.5%, or 94 b.p. (0.94%) above the benchmark index (see Table 29, p. 47). Macro trend strategies had the best performance, in particular by making the most of declines in short- and long-term interest rates. Conversely, event-based strategies and emerging market equity strategies experienced some difficulties due to market volatility combined with high correlation among equities.

1. Source: Hedge Fund Research

Analysis of Performance by Asset Class

Asset Allocation

Description

The Asset Allocation portfolio is composed of various positions on financial markets in the form of derivative financial instruments. Its objective is to guide the Caisse's exposure to the main asset classes in a flexible manner and to calibrate the risk-return profile of the Caisse's overall portfolio.

Strategy

The goal of consolidated asset allocation activities is to actively manage the allocation of assets in the Caisse's overall portfolio over an investment horizon of less than three years. There are two types of asset allocation activities:

- Activities carried out through the use of derivatives, particularly with the aim of protecting the portfolio against the risks of extreme fluctuation, and recorded in the Asset Allocation portfolio.
- Activities tied to the overweighting and underweighting of specialized portfolios, the impact of which is recorded directly in these portfolios.

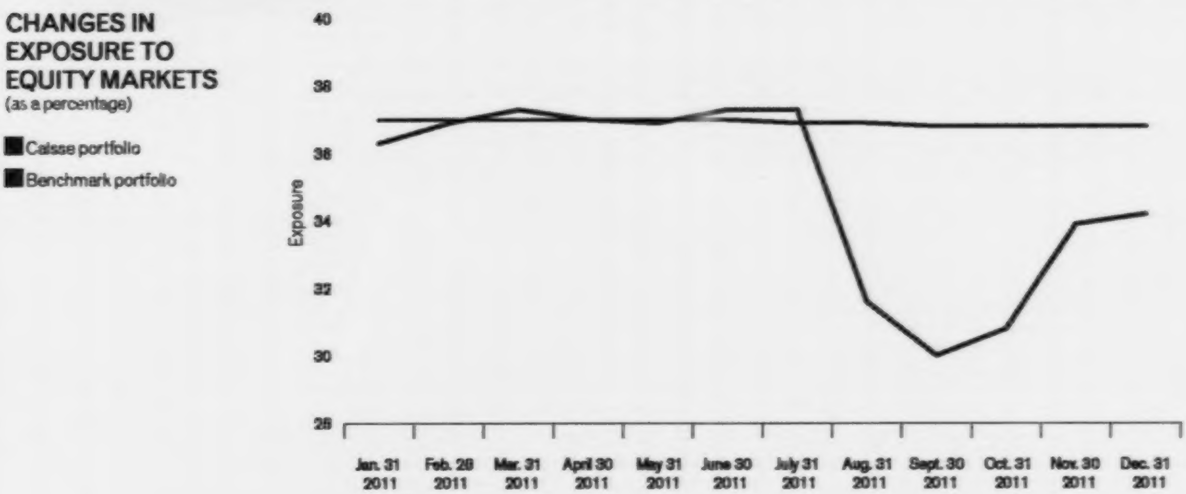
Returns

In 2011, asset allocation activities were initially carried out to neutralize cash positions. In the second half of the year, they were carried out to protect the overall portfolio (see Analysis of Overall Performance, p. 28).

As at December 31, 2011, the net investment results of the Asset Allocation portfolio amounted to $121 million (see Table 29, p. 47). This positive result is attributable, in particular, to activities intended to protect against declines in equity markets, by means of derivatives.

Figure 28 presents the changes in the Caisse's equity market exposure.

CHANGES IN EXPOSURE TO EQUITY MARKETS
(as a percentage)



ABTN

Description

The portfolio is composed of asset-backed term notes (ABTNs). These medium-term notes have an average maturity of five years and generate quarterly interest income.

Strategy

The ABTN portfolio aggregates activities that are declining. Controlling and reducing risks are therefore a key component of the portfolio management strategy. In 2010, managers put in place hedges that made it possible to reduce market exposure by close to 50%. In 2011, these hedges helped reduce portfolio volatility in a jittery market. Starting in 2012, the objective is to carry out transactions that will make it possible to close certain positions. The portfolio's activities are still expected to end in 2016-2017.

Returns

Weak economic growth, but especially fears relating to the sovereign debt crisis in the eurozone, resulted in wider rate spreads in 2011. The widening was more pronounced for the securities of financial institutions, European securities and high-yield securities than for corporate securities, U.S. securities and high-quality securities. Geographic area and systemic risk exposure were factors that caused the spreads to widen. At the close of the year, spreads were still very wide in spite of improved market conditions in the fourth quarter following the adoption of measures by the European authorities to resolve the crisis.

As at December 31, 2011, the contribution of the ABTN portfolio to net investment results totaled $93 million (see Table 29). The effect of wider rate spreads on the value of the portfolio's assets was more than offset by the revaluation of certain investments and the narrowing average maturities of the securities in the portfolio.

All in all, these results made it possible to reduce the ABTN provision from $4.1 billion to $4.0 billion.

SPECIALIZED PORTFOLIO RETURNS – OTHER INVESTMENTS

(for periods ended December 31, 2011)

	1 year				4 years		
	Depositors' net assets $B	Return %	Index[1] %	Spread[2] (b.p.)	Return %	Index[1] %	Spread[2] (b.p.)
Hedge Funds	3.3	0.5	(0.5)	94	(1.1)	(1.6)	52
Asset Allocation[3]	1.2	$121M	N/A	N/A	$(1,673) M	N/A	N/A
ABTN[3,4]	(2.5)	$93M	N/A	N/A	N/A	N/A	N/A

1. The description of the indexes is presented in Table 9, p. 26.
2. Compared to the benchmark indexes.
3. Returns in dollars are cumulative and net of operating expenses and other fees.
4. The ABTN portfolio financing exceeds the fair market value of its investments and mainly accounts for the negative net assets.

Changes in Assets

HIGHLIGHTS

01 **Depositors' net assets increased by $7.2 billion to stand at $159.0 billion.**

02 **Net investment results amounted to $5.7 billion. They relate primarily to Fixed Income and Inflation-Sensitive Investments.**

03 **Depositors' total net deposits amounted to $1.5 billion.**

DEPOSITORS' NET ASSETS

In 2011, depositors' net assets increased by $7.2 billion, including net investment results of $5.7 billion attributable mainly to Fixed Income and Inflation-Sensitive Investments, and $1.5 billion in depositors' net deposits.

Depositors' net assets went from $120.1 billion as at December 31, 2008 to $159.0 billion as at December 31, 2011. This increase comes from the net investment results of $35.2 billion and depositors' net contributions of $3.6 billion.

TOTAL ASSETS

As at December 31, 2011, total assets amounted to $191.3 billion whereas they stood at $183.2 billion as at December 31, 2010, an increase of $8.1 billion (see Table 31, p. 49). The Caisse managed its liabilities very carefully and these remained stable compared to 2010. Liabilities, used in particular to fund real estate investment purchases, largely consist of short sales, securities sold under repurchase agreements, derivatives and financing programs issued by the Caisse's subsidiary, CDP Financial.

ANALYSIS OF CHANGES IN DEPOSITORS' NET ASSETS

(for the period 2008-2011 – in billions of dollars)

	2008	2009	2010	**2011**	**2008-2011**
Depositors' net assets at the beginning	155.4	120.1	131.6	**151.7**	**155.4**
Investment income	6.1	5.0	4.8	**5.2**	**21.1**
Gains (losses) on the sale of investments	(23.2)	4.5	1.6	**(0.5)**	**(17.6)**
Unrealized increase (decrease) in value of investments	(22.4)	2.6	11.6	**1.3**	**(6.9)**
Operating expenses	(0.3)	(0.3)	(0.3)	**(0.3)**	**(1.2)**
Net investment results[1]	(39.8)	11.8	17.7	**5.7**	**(4.6)**
Depositors' net contributions	4.6	(0.3)	2.4	**1.5**	**8.2**
Depositors' net assets at end	120.1	131.6	151.7	**159.0**	**159.0**

1. Net investment results include income generated by depositors' demand deposits and term deposits.

ASSETS UNDER MANAGEMENT AND ASSETS UNDER ADMINISTRATION

The $3.0 billion decline in assets under management and assets under administration is mainly attributable to the sale of non-strategic assets in connection with refocusing the operations of Ivanhoé Cambridge. The real estate subsidiary sold a holding company with assets under management amounting to $2.0 billion as at December 31, 2010.

NET INVESTMENT RESULTS

Net investment results include investment income, reduced by operating expenses and external management fees, gains or losses on the sale of investments as well as unrealized gains or losses (see Table 31).

In 2011, the Caisse had net investment results of $5.7 billion compared to results of $17.7 billion in the preceding year (see Table 31). Although the net investment results are positive, they are down compared to last year, mainly as a result of the declines in equity markets.

The favourable results achieved in 2011 are attributable, in particular, to the general reduction in interest rates and increased demand for quality assets having a lower risk profile than equities, such as infrastructure and real estate investments.

The analysis of operating expenses and external management fees is presented on page 140.

RESULTS AND CHANGES IN COMBINED NET ASSETS AND TOTAL ASSETS UNDER MANAGEMENT[1]

(for years ended December 31 – in millions of dollars)

	2011	2010
Investment income	**5,142**	4,850
Less:		
Operating expenses	**269**	257
Expenses related to repositioning of information technology and write-offs of intangible assets	**–**	34
Net investment income	**4,873**	4,559
Gains (losses) on the sale of investments	**(495)**	1,582
Total realized income	**4,378**	6,141
Unrealized increase in value of investments and liabilities related to investments	**1,368**	11,590
Net investment results	**5,746**	17,731
Depositors' net deposits	**1,477**	2,423
Increase in depositors' net assets	**7,223**	20,154
Depositors' net assets, beginning of year	**151,742**	131,588
Depositors' net assets, end of year	**158,965**	151,742
Liabilities (primarily assets financed by borrowing) and non-controlling interests	**32,323**	31,455
Total assets	**191,288**	183,197
Assets under management	**8,731**	11,417
Assets under administration	**4,159**	4,516
Assets under management and assets under administration	**12,890**	15,933
Total assets under management	**204,178**	199,130

1. See Note 3 of General Notes.

Changes in Assets

Investment income
Investment income, also called current income, primarily includes interest income, dividends and real estate property rental income.

For the year ended December 31, 2011, investment income totaled close to $5.2 billion, up slightly compared to 2010 results (see Table 31, p. 49).

Gains (losses) on the sale of investments
Losses on the sale of investments reached $0.5 billion in 2011, compared to gains of $1.6 billion in 2010. In 2011, the losses resulted from sales in the Equity asset class, reduced by gains on the sale of securities in other asset classes.

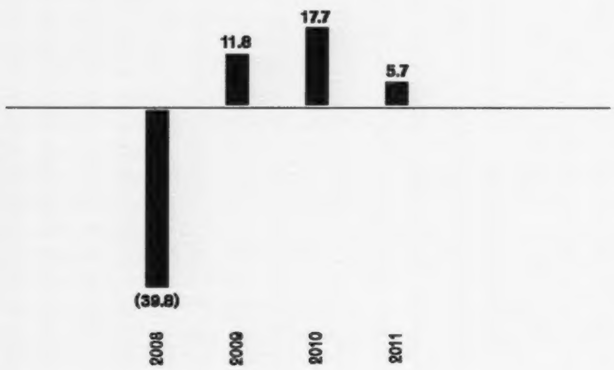
Unrealized increases (decreases) in value
For 2011, the Caisse posted a $1.3 billion unrealized increases in value on investments and liabilities related to investments (see Table 31, p. 49). Specifically, it recorded unrealized increases in value for the Fixed Income and Inflation-Sensitive Investments asset classes, offset by the Equity asset class. The returns for this asset class stem particularly from negative returns by equity market indexes in Canada, Europe, Australasia and the Far East (EAFE) as well as emerging countries. The Private Equity portfolio generated unrealized increases in value.

Figure 32 presents changes in net investment results from 2008 to 2011.

DEPOSITORS' NET DEPOSITS (WITHDRAWALS)

As at December 31, 2011, depositors' total net deposits of $1.5 billion are mainly attributable to contributions by the Retirement Plan Sinking Fund and the Generations Fund.

CHANGES IN NET INVESTMENT RESULTS
(for years ended December 31 – in billions of dollars)



Risk Management

HIGHLIGHTS

01 In 2011, the Caisse implemented a proactive risk management strategy in response to the debt crisis.

02 In an environment characterized by uncertainty, the Caisse actively and rigorously managed its credit, counterparty and liquidity risks.

03 Several actions were taken to continue to enhance risk management tools and methodologies.

RISK MANAGEMENT AT THE CAISSE IN 2011

Several major risks appeared in 2011 and had consequences for financial markets. The tsunami and nuclear accident in Japan as well as the Arab Spring uprising marked the beginning of the year. But it was the problems related to debt levels of developed countries that dominated the attention of investors and the Caisse in 2011. In order to tackle the 2008 financial crisis, support their financial institutions and massively stimulate their economies, governments significantly increased their financial burden, which was already heavy.

The debt crisis first made itself felt in the United States, with the political crisis between the Senate and the House of Representatives concerning the increase in the U.S. debt ceiling; it became the main source of concern and anxiety for investors. However, this political crisis was soon overtaken by the European sovereign debt crisis. These events had repercussions for market, credit and counterparty risk for the Caisse and for all investors.

Sovereign bonds from several countries, which had hitherto been considered risk-free investments, experienced a rapid and abrupt decline in value, carrying in their wake the market capitalization of several European banks and insurers that held a significant portion of the sovereign debt. Markets were very volatile, especially in the second half of the year. Between its peak on April 4 and its lowest point on October 3, the S&P 500 Index fell approximately 20%, although it later regained most of its losses and ended the year slightly up. Movement of this magnitude creates a lot of uncertainty and market dislocations.

AN EFFECTIVE RESPONSE BY THE CAISSE TO THE UNCERTAINTY REGARDING THE EUROPEAN SITUATION

In early summer 2011, after a detailed analysis of the risks affecting its portfolio, the Caisse proactively implemented a major underweight strategy in equity markets, because it judged that the risk level was high and had the potential to get worse. This strategy ensured that the Caisse's overall portfolio did not present an inappropriate level of market risk for the interests of its depositors. The scope of the hedging was moderated as a function of the estimated probability that the situation would markedly deteriorate, and on the basis of the analyses made and updated during this period. Thus, at its height, the underweighting represented close to 25% of the total amount of publicly traded shares in the portfolio. Its effect was to reduce the volatility of returns by 20%. In the fourth quarter, the Caisse gradually decreased this position, as it judged that the measures announced by the European Central Bank to ensure the liquidity of the financial system had reduced the likelihood of an extreme market correction.

This major defensive strategy was developed thanks to close collaboration between the risk and investment teams. Detailed scenarios were developed, ranging from Greece leaving the eurozone to the complete breakup of the eurozone. These scenarios were used to determine the potential losses of both the benchmark portfolio and the Caisse's investments. The results of stress tests modulated the level of risk considered to be appropriate in view of the prospective risks related to financial, economic and political events. Thus, for most of 2011, the Caisse reduced its risk level and adopted a defensive strategy to decrease the potential effects of extreme risks, while continuing its investment activities and seizing opportunities for long-term investment that emerged. This approach contributed directly to the results obtained in 2011.

Risk Management

The effects of implementing this defensive strategy could be clearly observed with the risk analysis tools developed by the Caisse over the last two years, as Figure 33 shows.

Active management of credit, counterparty and liquidity risks

In addition to the actions taken to reduce its market risk, the Caisse actively managed its credit, counterparty and liquidity risks. At the first signs that the situation in Europe could potentially worsen, it closely monitored all of the positions in its portfolio:

- Certain investments that represented a credit risk deemed inappropriate were not renewed.
- The risk represented by the positions negotiated with each counterparty as a function of market movements was analyzed in detail.
- The financial position of large counterparties that were particularly exposed to the sovereign debt crisis was monitored with help of several market indicators.
- Movements affecting collateral calls for positions in derivatives were also monitored, ensuring that no major movement affected these positions and liquidity.
- Activities with the most at-risk counterparties were reduced and certain business relations were reviewed.

CHANGES IN RISK MEASUREMENTS

Absolute and active market risk

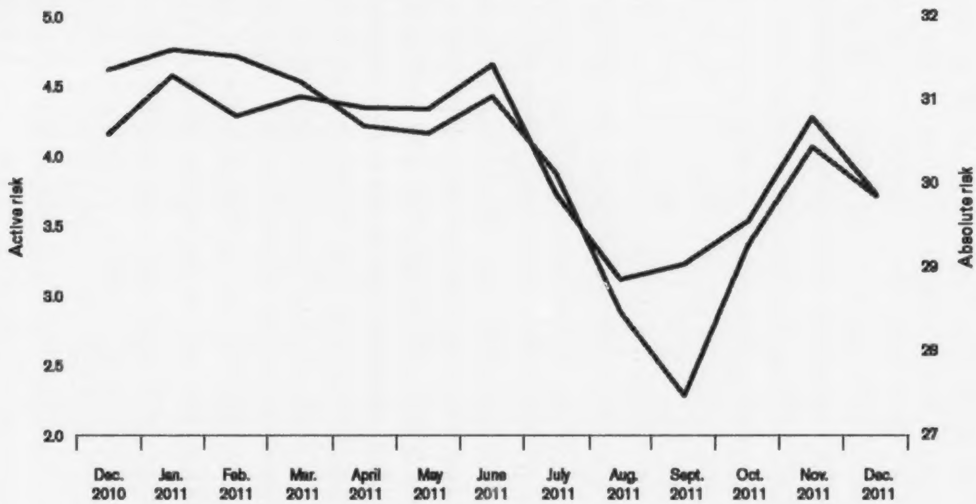
As at December 31, 2011, the market risk of the Caisse's overall portfolio was slightly lower than the level as at December 31, 2010.[1] The absolute risk declined from 31.4% at the end of 2010 to 29.9% at the end of 2011. The active risk fell from 4.2% to 3.7% during the same period (see Tables 34 and 35, page 53).

As Figure 33 shows, the market risk measurements fluctuated significantly during the year. The considerable decline in the Caisse's absolute and active market risks observed in the second half of the year is mainly attributable to the hedging transactions carried out following the sovereign debt crisis. Thus, the Caisse dynamically adjusted the market risk of its portfolio based on its assessment of prospective risks.

1. Value at Risk (VaR) is now measured on a historical sample of 1,500 days instead of 1,300 as in 2010. Since the data as at December 31, 2010, presented in this text has been recalculated with the aid of a 1,500-day historical sample, risk levels are not comparable to those presented in the 2010 Annual Report.

CHANGES – CAISSE MARKET RISK
(as a percentage)

Absolute risk
Active risk



As Figure 36 shows, the strong decline in market risk observed between July and October, followed by a rise between October and December, is almost entirely explained by the extent of the underweighting of Equity portfolios (comprising the Equity asset class with the Private Equity portfolio).

It should also be noted that, between August and October 2011, the Caisse decided to reduce its level of market risk below that of the benchmark portfolio. This kind of defensive position constitutes a first since it started measuring the market risk of its portfolio.

MARKET RISK – ABSOLUTE[1]

(as a percentage of total net value of the asset class as at December 31)

Asset classes	**2011**	2010
Fixed Income	**10.2**	10.0
Inflation-Sensitive Investments	**41.5**	35.7
Equity	**47.0**	47.2
Other Investments[2]	**1.5**	2.2
Global	**29.9**	31.4

1. All these values are presented using the new methodology (VaR 99%, 1,500 days).
2. The risk of the Other Investments asset class is presented as a percentage of the Caisse's net assets. This asset class contains the Hedge Funds, ABTN and Asset Allocation portfolios.

MARKET RISK – ACTIVE[1]

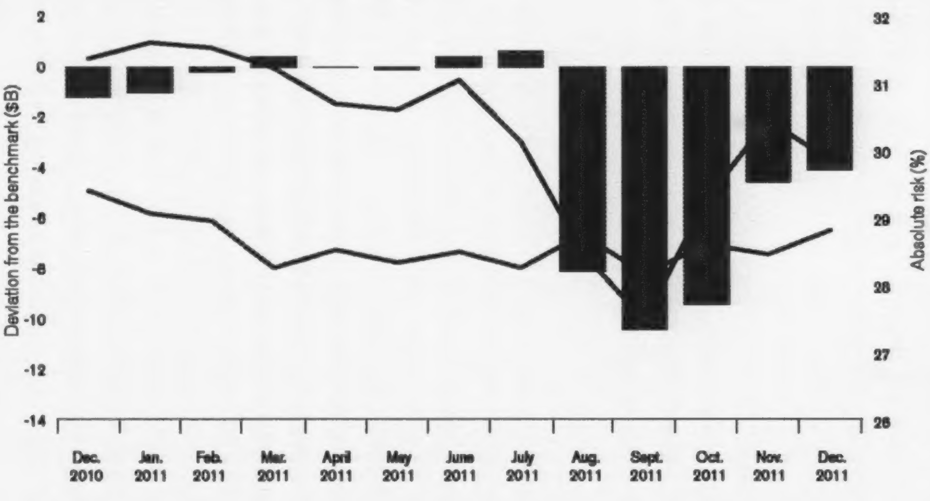
(as a percentage of total net value of the asset class as at December 31)

Asset classes	**2011**	2010
Fixed Income	**1.2**	1.2
Inflation-Sensitive Investments	**16.5**	10.2
Equity	**4.7**	5.7
Other Investments[2]	**1.5**	2.1
Global	**3.7**	4.2

1. All these values are presented using the new methodology (VaR 99%, 1,500 days).
2. The risk of the Other Investments asset class is presented as a percentage of the Caisse's net assets. This asset class contains the Hedge Funds, ABTN and Asset Allocation portfolios.

CAISSE MARKET RISK AND DEVIATION FROM THE EQUITY MARKET BENCHMARK[1]

- Absolute risk – Caisse (%)
- Absolute risk – Benchmark (%)
- Deviation from the benchmark - Equity markets ($B)



1. The deviation from the benchmark includes both the spot position and derivative positions.

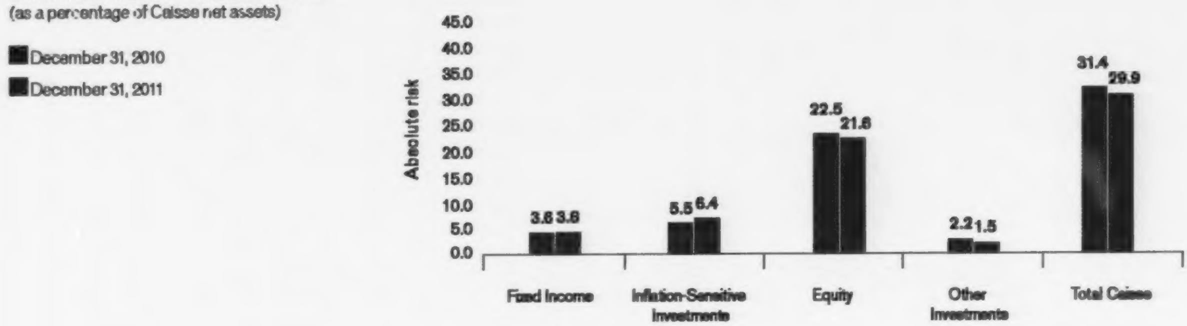
Risk Management

The slight drop in the absolute risk of the Caisse's overall portfolio in 2011 comes mainly from the hedging transactions on equity markets still present in the portfolio as at December 31, 2011 (Other Investments asset class) (see Figure 37). The rise in risk for the Inflation-Sensitive Investments asset class is a result of new investments and revaluations of investments, whereas the decline observed in the Equity asset class is mainly due to the decreased weighting of the Energy and Materials sectors within the Canadian Equity portfolio.

The decrease in the Caisse's overall active risk results in equal measures from the reduction in the active risk of the Equity asset class and the Other Investments asset class (see Figure 38). These drops more than offset the increase in active risk of the Inflation-Sensitive Investments asset class caused by new investments and by the revaluation of investments in the Infrastructure portfolio. The decrease in the Equity asset class results from the Private Equity portfolio, for which the allocation by business is very close to that of its benchmark index. Finally, the decline in active risk for the Other Investments asset class can be explained by the hedging transactions of the Asset Allocation portfolio, the termination of certain transactions underlying the ABTN portfolio and the approaching maturity of other transactions in that same portfolio.

MARKET RISK – ABSOLUTE[1]

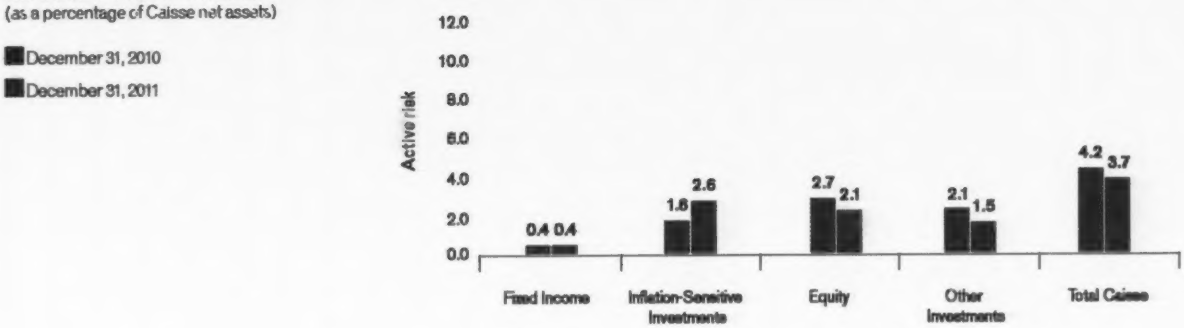
(as a percentage of Caisse net assets)



1. All these values are presented using the new methodology (VaR 99%, 1,500 days).

MARKET RISK – ACTIVE[1]

(as a percentage of Caisse net assets)



1. All these values are presented using the new methodology (VaR 99%, 1,500 days).

Credit risk

In a context in which rate spreads rose and risk-free rates fell, several actions were taken to reposition the portfolios exposed to credit risk. In particular, the Caisse used the credit VaR developed in the last two years to measure and track changes in credit risk.

In 2011, the Caisse continued to reduce its exposure to private debt investments, namely investments in the Bond portfolio with the highest credit risk level. The Caisse reduced its holdings of securities rated BB+ and lower, as well as unrated ones. It also reduced its international corporate debt exposure and its unsecured loans to financial institutions. The reduction in the Caisse's credit risk also results from the decrease in its exposure to international mortgage loans, which continued during 2011. This decrease substantially reduced the Real Estate Debt portfolio's exposure to credit risk. These decisions contributed to increasing the average credit quality of the Caisse's investments and reducing credit risk.

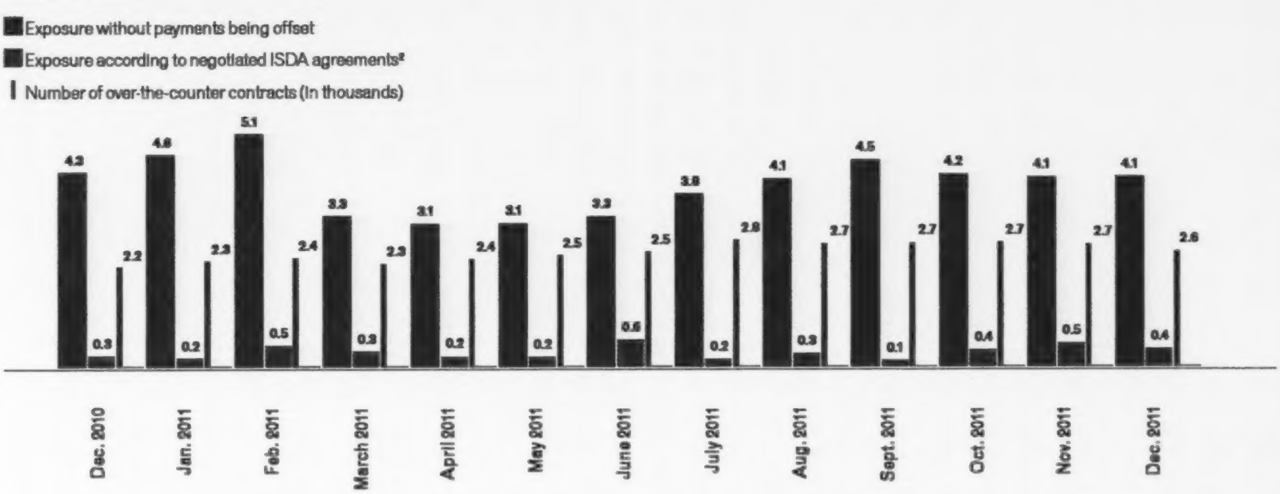
Counterparty risk

During the year, the credit risk of several counterparties with which the Caisse negotiates and engages in financial transactions was under pressure. This deterioration is mainly explicable by the European sovereign debt crisis and the weak recovery of the U.S. economy (see Figure 39).

The Caisse implemented a daily monitoring process based on a series of financial indicators for each of its counterparties. The counterparties' financial health was also reviewed periodically by a team made up of representatives from the investment teams specialized in the financial sector and from the risk teams. Thus, the Caisse was able to act rapidly in the face of deteriorating credit conditions. It kept its counterparty risk at a low level by reducing certain activities with counterparties considered to be at risk and by transferring certain transactions to sounder counterparties, while retaining a low overall net exposure to counterparty risk during the year.

CHANGES IN EXPOSURE TO COUNTERPARTY RISK[1]

(In billions of dollars)



1. This figure excludes the counterparty risk incurred directly by the real estate subsidiaries and the hedges related to ABTNs.
2. Under ISDA agreements, net exposure is gross exposure less the netting of amounts at risk and the exchange of collateral.

Risk Management

Liquidity risk

In a market context in which uncertainty and volatility remained high throughout the year, the Caisse retained a very comfortable level of liquidity.

As at December 31, 2011, the Caisse and its real estate subsidiaries possessed more than $45 billion in liquidities, which meant that the Caisse was more than able to respect its potential commitments, even in the event of a major market correction. During the year, the Caisse reduced its use of equity futures in the U.S. Equity and Québec International portfolios. As well, it added asset allocation positions, which diversified its derivatives portfolio. These measures reduced its potential commitments.

The Caisse uses different extreme scenarios to judge the adequacy of the liquidity it holds. These risk management tools were developed over the last two years.

IMPROVEMENT OF RISK MANAGEMENT METHODOLOGIES AND TOOLS

In 2011, the Caisse took several steps to continue improving its methodologies and tools as well as strengthening its oversight and processes in risk management.

Analysis of liquidity risk by portfolio

The Risk group continued to refine its monitoring of liquidity risk and is now able to issue an analysis of the sources and needs for liquidity of each of its portfolios.

Stress tests

The stress test tools developed in the last two years enabled the Risk team, in partnership with the Economic Analysis and Asset Allocation teams, to model different scenarios and quantify the impact they would have on the Caisse's overall portfolio. These tools made it easier to calibrate the hedging implemented in 2011 to protect the portfolio from the decline of equity markets.

Detailed analyses, involving various scenarios and stress tests, were completed for several major financial risks that could have a significant impact on the Caisse's results. In 2011, the analyses concerned the following prospective risks: the European debt crisis, the crisis in the Middle East, the economic slowdown in the United States and the potential economic slowdown in China.

The Caisse also developed a turbulence index that enables it to identify market conditions reflecting periods of abnormal volatility. Recent years have shown that financial markets are subject to different sets of conditions. The market dynamics (correlation between asset classes, levels of volatility) are very different in so-called "calm" and "turbulent" conditions. Classical market modeling is not very well adapted to these kinds of dynamics.

The model developed in 2011 makes it possible to systematically distinguish periods of turbulence using a new index that measures the turbulence level in one or more markets. This new measure allows the Caisse to assess the potential behaviour of its portfolio based on market conditions, better calibrate potential hedging transactions and gain a better understanding of correlation effects in the overall portfolio.

Improved quantitative risk analysis capacities

Risk measurement tools play a double role, as they are useful for control purposes and as portfolio management tools.

In 2011, several initiatives aimed to strengthen the Risk group's ability to support the investment teams. Resources are now dedicated to the quantitative analysis of risks and play an advisory role on technical questions for the investment teams. Furthermore, technology improvements allow for a better understanding of the evolution of risk levels.

Risk analysis of investment proposals

The Caisse continued to refine the risk analyses of investment proposals, emphasizing prospective risks, by the following means:

- Reviewing value creation strategies;
- Carrying out an in-depth analysis of operational, financial and valuation risks;
- Paying close attention to the critical assumptions of financial models;
- Assessing the volatility of fair value measurement parameters;
- Making an effort to standardize risk premiums as a function of business risks.

The analyses of investment risks in equity markets have been improved by the integration of new quantitative and qualitative measurements, in particular for geopolitical and reputation risks, as well as for environmental, social and governance (ESG) factors.

Geographic analysis of the sources of company revenues
During 2011, the Caisse developed methods to identify, measure and analyse the geographic concentration of the revenues generated by companies held in the Equity Market portfolios.

REVIEW OF OVERSIGHT AND PROCESSES

The Caisse continued its periodic review of its investment policies in 2011, based on modifications in its strategy or changes in markets. It also modified its oversight framework and processes, in particular for credit and operational risks.

Review of the Infrastructure portfolio's investment policy
During the year, due to market constraints, the Caisse reviewed the Infrastructure portfolio's investment policy, mainly in relation to the segmentation of the leverage level by type of infrastructure investment. The review considered the business specificities inherent in each investment category.

Review of the Global Equity portfolio's investment policy
The Caisse also reviewed the investment policy of the Global Equity portfolio. It added strategies focusing on companies for which the long-term return on investment is high, but for which the volatility is lower than that of the benchmark market.

Upgrade of credit analyses
In 2011, the Caisse adopted the principle of engaging experts in advanced analysis in order to reduce its dependency on the ratings issued by the credit agencies. This principle is based on best practices in the industry, as proposed by the Financial Stability Forum, among others. An internal rating must be established on the basis of a rigorous credit risk analysis, which meets the standards set by the Risk group. The Caisse aims to perform and review detailed credit analyses on the debt securities in its portfolio.

Implementation of a financial risk watch process
With the aim of refining the integrated risk management process, the financial risk monitoring was upgraded in 2011. This monitoring process made it possible to map the main financial risks to which the Caisse is exposed and rank the most important ones. Indicators were established by major asset class in order to better monitor developments in these risks and foster more proactive management.

Strengthening of operational risk management practices
In 2011, the Caisse made major changes in the methodology and governance of its operational risks. It set up the Operational Risks Committee (ORC), a subcommittee of the Executive Committee, chaired by the head of the Risk group. This Committee has the mandate to prioritize operational risk issues submitted by the Risk group, after consultation with the Caisse's various sectors, to approve measures to mitigate these risks and to monitor the progress of the resulting work.

Redeployment of the Risk group
The Risk group was redeployed in 2011 to increase its ability to meet the challenges raised by changes in the economic and financial environment. The major objectives of this redeployment are as follows:

- increase the effectiveness and efficiency of risk management activities;
- strengthen the capacity for qualitative and quantitative risk analysis and the level of expertise;
- provide the group with competencies that complement its chosen directions;
- foster better cooperation within the group;
- favour a client-service orientation for each investment activity.

Several changes in the organization of work and the division of labour were made, including:

- regrouping of risk measurement activities;
- creation of a unit responsible for managing risk data within the group;
- creation of quantitative analysis groups for each portfolio;
- upgrading of qualitative analysis activities, especially as regards investment products.

Risk Management

Review of derivatives in the portfolio

The Caisse reviewed and analyzed all the derivatives held in its portfolios. In the context of legislative changes around the world, it summarized the potential impacts on its portfolios of amendments to the rules in the U.S., European and Canadian jurisdictions. This analysis included the anticipated effects on the Caisse's liquidity and the implementation of new products subject to clearing houses, as well as what monitoring needs to be established. The Caisse also analyzed the improvements in its reports, risk management tools and oversight.

THE RISK-RETURN DIALOGUE

Risk management is inseparable from the investment and portfolio management processes. Since the investment teams must consciously take risks to generate the expected returns, the risk-return relationship is an integral part of their activities. In this context, robust risk management is indispensable for ensuring that our managers take and control calculated risks.

Risk management governance ensures the transparency of the Caisse's investment activities. At each meeting of the Caisse's Risk Management Committee, the following aspects of accountability include:

- review of the investments covered by the investment policies;
- analysis of a risk measurement for each portfolio linked to returns;
- analysis of the different concentrations and risk factors.

The risk-return reports, which are the core of our approach, provide an in-depth analysis of every activity, the results obtained and the assessments of the risks taken. The risk and investment teams prepare the risk-return reports in collaboration, improving their quality, simplifying them and thus facilitating their understanding by the Risk Management Committee. These reports serve to reinforce the risk-return dialogue within the Caisse.

The investment teams, economists and the Caisse's Risk team define the stress tests that must be carried out. These tests are developed by monitoring the Caisse's major prospective risks and are used to assess their impacts on the portfolio. The risk and investment teams also work together to ensure that risk limits are respected. Action plans are developed to ensure the implementation of the required adjustments, and these action plans are monitored in collaboration with the investment teams.

As a result, throughout the year, a dialogue is maintained between the investment and risk teams. The support of the Risk team for the portfolio managers along with the constructive criticism this team brings to the table are now part of the Caisse's practices, strengthening the institution's risk culture.

The risk management team is continuing to develop its approach to go "beyond measurement" in order to ensure healthy oversight of risks and to add value for the portfolio managers.

THE RISK GOVERNANCE MODEL

To ensure a risk-return balance in the performance of its second level of risk control, the Risk team's strategy is based on the following:

- Integration of risk experts working together with each of the investment teams.
- Development of effective analytical tools.
- Integration of the risk component into all of the Caisse's business processes.
- Development of a better understanding of the risks arising from the Caisse's operations.

The team has a vision of becoming a reference in the following areas:

- Analysis of investment products.
- Transversal knowledge of the full range of portfolios and interrelations existing between investment products.
- Transversal knowledge of the Caisse's business functions with a view to ensuring that proactive management of operational risks is implemented.

This strategy is consistent with the overall risk management approach adopted by the Caisse and described in its Integrated Risk Management Policy.

Integrated Risk Management Policy
The Caisse adopted a global and centralized approach for risk management oversight: the Integrated Risk Management Policy (IRMP).

This policy is reviewed regularly and is aimed at fostering a disciplined risk management culture and practices. More specifically, the IRMP defines risk management governance, sets the level of risk deemed acceptable to prevent excessive losses, aligns this level of risk with value-added objectives and aims to allocate risk effectively.

The IRMP is the cornerstone of risk oversight. It includes reporting mechanisms and describes different aspects of risk management, particularly:

- the guiding principles, namely the risk model and the independence of the support teams in integrated risk management;
- the organizational structure, the normative framework, governance and sharing of responsibilities;
- risk budgets;
- limits on authorization of transactions and on authorization of management outsourcing and concentration limits per issuer;
- a framework for management outsourcing and the use of financial derivatives;
- the management of different types of risk.

Levels of control in risk management
Risk management is ultimately the responsibility of the Board of Directors. However, managers at all levels are required to integrate risk management into daily decision-making process. It applies to all Caisse employees and agents in the fulfillment of their duties.

Governance of risk management is based on three levels of control:

Level 1 – The portfolio managers, who are primarily responsible for managing risks related to operations under their purview.

Level 2 – The Risks Committee (RC) a subcommittee of the Executive Committee, assisted by the Risk group and the Policies and Compliance group. The Operational Risk Committee (ORC), a subcommittee of the Executive Committee, assisted by the Risk group.

Level 3 – The Board of Directors and its Risk Management and Audit Committees – in addition to the Internal Audit division.

In order to ensure the necessary objectivity and rigour, teams independent of those in investments are responsible for defining and overseeing the IRMP and the investment policies of the specialized portfolios, while monitoring their application.

Investment policies and risk budgets
Investment policies are intended to define the framework for the work of portfolio managers. Each specialized portfolio is associated with an investment policy that defines the investment philosophy, management style, investment universe, benchmark index, value-added objective and risk oversight, including concentration and risk limits.

A risk limit, or risk budget, is set for each specialized portfolio and the Caisse's overall portfolio. This risk budget takes into account each portfolio's value-added objectives. For the Caisse's overall portfolio, the risk limit also reflects the diversification effect of the specialized portfolios.

Risk Management

RISK MODEL

At the Caisse, the risk model is the basis for identifying, assessing and managing risks. It establishes a common language to ensure the various stakeholders can communicate effectively about risk management. The risk model also fosters rigorous and exhaustive analysis of each risk. Ultimately, this process leads to the implementation of investment strategies that generate stable and sustained returns to meet the depositors' expectations.

Within this model, the risks inherent in the Caisse's activities are divided into three broad categories: business, financial and operational risks (see Figure 40). Each category consists of sub-categories for accurately identifying all possible risks. Each risk requires a specific management approach.

THE CAISSE'S RISK MODEL

Business risks

Strategic risk

Strategic risk represents the possibility that an event related to the practices or relationships of the Caisse, its subsidiaries or employees, will contravene its mission, its culture and its fundamental values.

Strategic risk is also related to the inadequacy of business strategies and deficiencies in the implementation of the Caisse's strategic direction. The Caisse will indeed be exposed to strategic risk if its resources are not allocated according to the set priorities.

The Caisse manages this risk using a structured strategic planning process that involves all of its sectors. Strategic direction is proposed by the Executive Committee, approved by the Board of Directors and communicated to all employees. Annual business plans are subsequently drawn up. The members of the Board of Directors and the Executive Committee receive a quarterly summary of the Caisse's activities.

Reputation risk

Reputation risk represents the possibility that an event related to the business practices or relationships of the Caisse, its subsidiaries or its employees, will adversely affect the Caisse's image or cause the public to lose confidence in the institution. This risk could detract from the Caisse's ability to achieve its objectives.

All directors, members of senior management and employees are responsible for carrying out their activities so as to minimize reputation risk.

The Caisse manages and controls this risk through codes of ethics and professional conduct for members of senior management, directors and employees, training programs, effective internal management and governance practices and a set of policies and procedures, including its Policy on Responsible Investment. The Caisse also ensures that the information it provides internally and externally is truthful and has been previously validated, and aims to ensure that the public and the media gain a better understanding of its operations. The Caisse also monitors relevant communications reports and issues public positions, whenever necessary.

Financial risks

Market risk

Market risk represents the risk of financial loss arising from changes in the value of financial instruments. The value of a financial instrument may be affected by changes in certain market variables, particularly interest rates, foreign exchange rates, share prices and commodity prices. The risk arises from the volatility in prices of financial instruments, which, in turn, result from the volatility of such market variables.

The Caisse manages all market risks in an integrated manner. The main elements that give rise to risks such as industry, country and issuer, are taken into account. To manage market risk, the Caisse may use derivative financial instruments that are traded on exchanges or directly with banks and securities dealers.

Value at risk

The Caisse measures market risk using a statistical technique known as value at risk (VaR). This technique, used by most investment firms and financial institutions, covers all the assets held by the Caisse. The Caisse determines the VaR for each instrument in its specialized portfolios and aggregates the information for the overall portfolio. Two types of risk are assessed, namely the absolute VaR of the Caisse's benchmark portfolio and overall portfolio, and the VaR of active management.

VaR is based on the statistical measurement of volatility of the market value of each portfolio position and their correlations. VaR uses historical data to estimate the loss expected during a given period based on a predetermined confidence level. For example, using a 99% confidence level, the VaR indicates that a loss will exceed this level in only 1% of cases.

One of the advantages of VaR is that it includes the risk of a wide range of investments in a single measurement, providing an overall risk measurement for a portfolio and even for a set of portfolios.

The Caisse uses the historical simulation approach to assess VaR. This method is based primarily on the assumption that the fluctuation of securities in a given period infers future fluctuation of securities. This method requires that the series of historical data for all the risk factors necessary to assess the returns on instruments be available. In the absence of such historical data, particularly for less liquid products, such as private equity and real estate, substitute securities and various mathematical models are used to calculate VaR. Historical data from 1,500 days of observation of risk factors such as variations in exchange rates, interest rates and financial asset prices, are used to assess the volatility of returns and the correlation between returns of various assets.

The results of the calculations obtained by applying this methodology do not allow the inference of an estimate based on a specific event, of the amount of the loss that a portfolio would incur if such an event recurred.

The methodology used by the Caisse estimates a portfolio's risk by annualizing its potential daily loss, that is, by assuming that the amounts lost throughout the year will be reinvested to maintain the same level of risk. In summary, this methodology means that the effects of the worst adverse events on the portfolio observed over a one-day horizon will be repeated several times a year.

It is inappropriate to make a connection between the calculation of VaR at 99% used by the Caisse and a specific historical event. This methodology is not intended for this objective. It seeks to provide the Caisse's managers with the means to assess and manage portfolio risk dynamically.

VaR measures risk under normal market conditions. Therefore, losses realized may greatly differ from the VaR when the historically observed interrelationship between risk factors is disrupted.

As VaR is not designed to be used on its own, the Caisse uses complementary limits and measurements. In particular, specialized portfolio investment policies are used to define concentration limits (geographic, sector, instrument type, issuer, etc.) as well as loss limits.

Risk Management

Absolute risk and active risk
Any investment decision involves an element of risk, including the risk of a gain or loss arising from a fluctuation in the value of financial instruments held in a portfolio. The same method is used to calculate the absolute risk of the Caisse's benchmark portfolio and overall portfolio.

The absolute risk of the benchmark portfolio represents the result of the risk of the benchmark indexes related to the asset classes that make up the portfolio at a given date. For example, if the depositors choose to increase the bond weighting and reduce the weighting of publicly traded equities in their respective benchmark portfolios, the risk will automatically decrease, given the lower volatility of bonds. Consequently, the expected long-term absolute return will also decrease.

The absolute risk of the overall portfolio is the result of the risk of the positions that make up the Caisse's overall portfolio at a given date.

Active risk represents the possibility that the Caisse's return will diverge from the benchmark portfolio return due to active management of its portfolio. The greater the active risk, the more the overall portfolio's expected absolute return (see Figure 41) will diverge from the benchmark portfolio return.

The absolute risk of the Caisse's benchmark portfolio and the active risk and the absolute risk of the overall portfolio are measured regularly and are subject to various limits.

Stress tests
The Caisse also uses stress tests to assess the losses of a specialized portfolio and the Caisse's overall portfolio in extreme circumstances. The stress test is a risk measurement that complements VaR by estimating the impact of extreme circumstances on returns. These circumstances have a low probability of occurring but are likely to give rise to substantial losses. Using different types of extreme scenarios, the stress test measures the loss of value of a position following a variation in one or more usually interrelated risk factors such as equity prices, interest rates, rate spreads, foreign exchange rates, commodity prices and market volatility.

Like VaR, the stress test includes the risk of many positions in a single overall measurement, making it possible to analyze losses for a portfolio or for a set of portfolios, under selected extreme scenarios.

COMPONENTS OF THE CAISSE'S RISK AND RETURN

CAISSE BENCHMARK PORTFOLIO	→	Absolute risk of Caisse benchmark portfolio	→	**Return on market indexes: beta (β)**
+				+
ACTIVE MANAGEMENT	→	Active risk	→	**Relative return: alpha (α)**
=				=
CAISSE OVERALL PORTFOLIO	→	Absolute risk of the Caisse overall portfolio	→	[illegible]

Credit, concentration and counterparty risk

Credit risk

Credit risk represents the possibility of a loss of market value in the event a borrower, an endorser, a guarantor or a counterparty does not honour its obligation to repay a loan or fulfill any other financial obligation, or experiences a deterioration of its financial position.

Credit risk analysis involves measuring the probability of default and the recovery rate on debt securities held by the Caisse and monitoring changes in credit quality of issuers and groups of issuers[1] whose securities are held in all of the Caisse's portfolios. In managing credit risk, the Caisse frequently monitors changes in the ratings issued by rating agencies and compares them with in-house credit ratings, whenever available. It also uses the credit VaR for its Bond, Long Term Bond, Real Return Bond and Real Estate Debt portfolios.

Credit VaR is a statistical measurement that integrates the information on the current and potential creditworthiness of issuers in the portfolio, their interrelations and the level of loss in case of default. This measurement therefore allows potential losses to be assessed over a period based on a specified confidence level. The Caisse assesses the credit VaR over a one-year period at a 99% confidence level.

Concentration risk

Concentration risk analysis measures the fair value of all the financial products related to a single issuer or group of issuers[1] with similar characteristics (geographical area, industry, credit rating).

The concentration limit by group of issuers[1] is set at 3% of the Caisse's total assets. Securities issued by the Government of Canada, the Government of Québec or any other Canadian province or territory or by their ministries or departments and agencies are exempt from this calculation as they are not subject to concentration limits. Sovereign issuers with AAA credit ratings are also excluded from this concentration limit. Lastly, specific concentration limits apply to investments in emerging markets.

Counterparty risk

Counterparty risk represents the credit risk from current or potential exposure to over-the-counter financial instruments resulting from the Caisse's operations.

Transactions involving derivatives are carried out with financial institutions whose credit rating is established by recognized rating agencies and for which operational limits are set by senior management. Moreover, the Caisse enters into legal agreements based on the standards of the International Swaps and Derivatives Association (ISDA)[2] to benefit from the netting of amounts at risk and the exchange of collateral to ensure the Caisse limits its net exposure to this credit risk.

Current exposure to counterparty risk is measured daily, as per the legal agreement in effect. Potential exposure to counterparty risk is measured monthly.

Liquidity risk

Liquidity risk represents the possibility that the Caisse may not always be able to fulfill its commitments related to its financial liabilities without having to obtain funds at abnormally high costs or proceed with a forced sale of assets. It also corresponds to the risk that it may not be possible to sell investments rapidly or to invest without having a significant adverse effect on the price of the investment in question.

Compliance with preset rules is reviewed every month, in addition to the daily monitoring of liquidity. The Caisse simulates various scenarios to assess the potential impact of different market events on its liquidity position. The managers responsible assess the liquidity of the markets on which the Caisse's financing operations are based. They also ensure the Caisse is active in different financial markets and maintains relationships with credit rating agencies that rate the Caisse as well as providers of capital.

1. A group of issuers is controlled by a parent company.
2. ISDA promotes sound risk management practices and issues legal opinions on netting and collateral arrangements.

Risk Management

Operational risks

Operational risk corresponds to the possibility of direct or indirect financial loss resulting from deficiencies within the operations.

Operational risk management and assessment require risks to be self-assessed, incidents to be listed, indicators to be used and rigorous processes to be maintained.

Human resources management risk

The risk related to human resources management includes such elements as recruiting and retention (recruiting and retaining competent, honest and motivated personnel), training (maintaining and developing employee competencies) and evaluating performance and compensation (ensuring fair, equitable and competitive compensation based on performance).

Process management risk

The risk arising from process management is related to the processes for input, settlement and tracking of transactions, and errors that may arise in the execution of the processes in place. In addition to internal causes, this risk may arise from the poor quality of services rendered by subcontractors, suppliers and business partners.

System management risk

The Caisse is exposed to a risk in the event of deficiency of its information technology infrastructures or computer systems. This deficiency may result from a breakdown or other malfunction that may cause delays or an interruption in operations that is not caused by a disaster.

Theft and fraud risk

This is the risk of losses arising from intentional acts to defraud, to embezzle funds or to appropriate the assets of the Caisse or of its depositors.

Disaster risk

Disaster risk represents the risk of losses resulting from the interruption of business following a natural or other disaster.

Compliance risk

Compliance risk corresponds to the risk of loss resulting from non-compliance with regulatory obligations, with policies and directives, or with professional and ethical standards and practices specific to the Caisse's operations. It occurs in the event that the Caisse fails to fulfill its duties.

Legal risk

Legal risk is related to the rights and obligations associated with the Caisse's operations and the legislative framework under which they are carried out. Important aspects of legal risk are related to compliance with laws and regulations to which the Caisse and its management teams are subject. They also depend on the assurance that the agreements entered into by the Caisse accurately reflect the planned transactions and contain the appropriate provisions. Legal risk also refers to the risk of lawsuits that may affect the Caisse.

Compliance

HIGHLIGHTS

01 Provided depositors with semi-annual certification of compliance with depositors' and specialized portfolio investment policies.

02 Appointed a person responsible for the Language Policy and set up a language committee, in accordance with the new government policy.

03 Updated the Code of Ethics and Professional Conduct for Officers and Employees.

Compliance activities include oversight to ensure compliance with depositors' and specialized portfolio investment policies, the Code of Ethics and Professional Conduct, the Language Policy, as well as access to information, based on the Information Disclosure Policy.

DEPOSITORS' AND SPECIALIZED PORTFOLIO INVESTMENT POLICIES

An essential part of the compliance program consists in certifying compliance with the depositors' investment policies and the specialized portfolio investment policies. In 2011, certificates of compliance with these policies were delivered to depositors twice, on June 30 and December 31. Moreover, depositors were also provided with new quarterly reports to help them monitor compliance.

Deployment of the Sentinel compliance tool continued in 2011. This tool, which was already operational in all liquid market investment activities, was also deployed for the Real Estate portfolio during the year. The next phases in the implementation of this tool will continue in 2012, in particular for the Private Equity portfolio.

CODE OF ETHICS AND PROFESSIONAL CONDUCT

The compliance officers ensure that Caisse officers and employees comply with the Code of Ethics and Professional Conduct, which emphasizes the importance of adopting appropriate behaviour, taking into account the organization's practices, respect for individuals and groups, and compliance with the laws, policies and regulations applicable to the Caisse. A process in place ensures that all employees annually reconfirm their compliance with the Code of Ethics and Professional Conduct. Furthermore, all employees must report any situation that reasonably appears to represent a breach of the Code.

The Code also includes a pre-approval process for personal employee transactions. Executive Committee members must either place the management of their portfolio in a blind trust or use a passive investment vehicle for corporate securities.

At the end of 2011, the Caisse updated the Code of Ethics and Professional Conduct following a benchmarking exercise carried out with its peers.

The Code may be consulted on the Caisse's website (www.lacaisse.com), under the Governance tab.

Compliance

INFORMATION ACCESS

The Caisse adopted an information disclosure policy in which it particularly addresses its obligations with regard to access to information.

It handles requests for access to documents under the Act respecting access to documents held by public bodies and the protection of personal information (Access Act). During 2011, the Caisse processed 28 document access requests within the legally prescribed period. Out of these 28 requests, 23 were accepted, 4 were accepted in part and 1 was refused. None of the requests was subject to an application for review by the Commission d'accès à l'information.

These requests were mainly for documents concerning fees paid to professional firms, incentive compensation and benefits received by members of senior management, and costs related to sponsorships, travel, training and telecommunications.

In the case where a denial was sent involved a request for personal information and documents containing financial information, on investment management or on fund management.

LANGUAGE POLICY

The Caisse complies with the requirements of the Charter of the French language and with its Language Policy, which stipulates that French must have priority in the conduct of its operations. It attaches paramount importance to the quality and use of French in its oral and written communications. For this reason, it provides its employees with tools that support the correct use of French, as well as a variety of reference works, including a lexicon that it developed on the terminology related to its own activities. In 2011, a series of language-related items were published regularly in the employee newsletter on the appropriate use of certain expressions and idioms. In these items, the Caisse also encourages its employees to make use of the tools and references available on the Office québécois de la langue française website.

Further to the adoption of a new government policy on the use and quality of French within the public service, the Caisse reviewed its Language Policy to align it with the government's guidelines. It made the Executive Vice-President, Legal Affairs and Secretariat responsible for the application of the Language Policy. In developing and implementing the Caisse's Language Policy, she is supported by a standing committee made up of key people from within the organization.

COMPLAINT MANAGEMENT

The Caisse appointed Ginette Depelteau, Senior Vice-President, Policies and Compliance, to receive, analyze and duly handle complaints.

All complaints can be forwarded to her by phone (514-847-5901), fax (514-847-5445) or e-mail (complaintmanagement@lacaisse.com).

Contribution to Québec's Economic Development

The Caisse in Québec... a Few Key Numbers

$41.2 B
TOTAL ASSETS IN QUÉBEC

$4.7 B
INCREASE IN TOTAL ASSETS IN QUÉBEC

$2.1 B
NEW INVESTMENTS AND COMMITMENTS IN QUÉBEC COMPANIES

IN DOING SO, THE CAISSE HELPED GENERATE INVESTEMENT PROJECTS TOTALING
$5 B

$22.5 B
TOTAL ASSETS IN QUÉBEC'S PRIVATE SECTOR

530
PARTNER OF OVER 530 QUÉBEC COMPANIES

THE CAISSE: SUPPORTING THE GROWTH OF SMEs IN ALL REGIONS OF QUÉBEC

Action Mécanique
Attraction Media
Budget Propane
Cam-Trac Sag-Lac
Centre de réalisation d'outils Innovateurs (CROI)
Cervo-Polygaz
Collection Papillon Gomme
CRS/Vamic
Décoplex
Édition Gladius International
Emballages Stuart
Express Havre St-Pierre
Fromagerie Boivin
Gestion P.R.N. Vigneau
Groupe minier CMAC-Thyssen
Hélicoptères Panorama
Hôtel Forestel Val D'Or
Hôtel Motel Q'Artier des Îles
La Forfaiterie
Les Chaussures STC
Les Solutions Victrix
Lanla recherche Marketing
Les Gestions F. Dumouchel
Les Impressions Soleil
Les Industries Béroma
Les Industries de Moules et Plastiques VIP
Les produits horticoles Demers
Les puits du Québec
Les Serres Demers
Location A.L.R.
Location Lauzon
Magellan Aviation Services
Matane Suzuki – Matane Honda
Matelas Lion d'or
Mécanique Plomb O Gaz
Pavages Nordic
Pixel Télécom
Plastech
Propane Nord-Ouest
Recyc RPM
RGF électrique
RX Santé
Santerre électrique
Sécurgence/VIP Télécom
Source Evolution
Station Skyspa
Terratube
Ultima Fenestration
VR2 Distribution

Examples of investments completed in 2011 in partnership with Desjardins Group (see p.75).

THE CAISSE'S COMPARATIVE ADVANTAGES

- ✔ IN-DEPTH KNOWLEDGE OF QUÉBEC
- ✔ LONG-TERM INVESTOR ROLE
- ✔ CRITICAL MASS
- ✔ GLOBAL REACH

A FIRM COMMITMENT AND CONCRETE RESULTS IN QUÉBEC

Through its investments, the Caisse aims to generate returns for its depositors and contribute to business and economic growth in Québec. For the Caisse, these two fundamental components of its mission go hand in hand and allow it to best serve the interests of its depositors, Québec companies and Québec.

The Caisse is a leading institutional investor in Québec, one that defines itself as a long-term partner for high-quality, well-managed and promising companies. In addition to financing these companies, the Caisse supports their development on many other fronts, most notably through its expertise in global markets and its network of international partners.

In 2011, the Caisse continued to expand its presence and play a leadership role in Québec by continuing to implement an action plan based on its comparative advantages and supported by a statement of its contribution to Québec's economic development.

Since implementing its new Québec strategy in 2009, the Caisse has undertaken many initiatives to make investments in all of its asset classes and build a stronger presence among Québec entrepreneurs and universities.

The Caisse invests in Québec and will continue to do so because it knows this market well, and this is a major comparative advantage. The Caisse's investments have a ripple effect: its presence in a transaction often encourages other capital commitments. Accordingly, in 2011, the Caisse made over 100 new investments and commitments worth $2.1 billion (an average of two investments per week). This led to $5 billion in investment projects.

THE CAISSE IS DETERMINED TO DO AS MUCH AS IT POSSIBLY CAN TO BETTER SERVE ITS DEPOSITORS, QUÉBEC COMPANIES AND QUÉBEC.

Contribution to Québec's Economic Development

STATEMENT OF THE CAISSE'S CONTRIBUTION TO QUÉBEC'S ECONOMIC DEVELOPMENT

The mission of the Caisse de dépôt et placement du Québec is to receive moneys on deposit as provided by law and manage them with a view to achieving optimal return on capital within the framework of depositors' investment policies while at the same time contributing to Québec's economic development.

Returns and economic development go hand in hand. The Caisse aims to make the most of its capacity to advance Québec's economic development. It seeks to play a leadership role by making investments in profitable companies that can generate attractive returns for its depositors. The Caisse also wants to support the growth – both in Québec and internationally – of promising companies. It wants to play an active role in successful entrepreneurship and support business succession. The Caisse also wants to help strengthen Québec's financial markets and optimize its operating expenses in Québec.

The Caisse's proximity to and deep knowledge of the Québec business environment and market, its view as a long-term investor, its critical mass and its global reach represent comparative advantages. Today, this gives the Caisse an opportunity to renew its commitment to the Québec economy and focus on the following priorities:

1. Seek and seize the best business and investment opportunities

   Invest in funds and support profitable companies with a view to long-term economic development, while generating a return that allows depositors to fulfill their obligations.

   - Identify and make profitable, long-term investments in areas that the Caisse knows well, such as natural resources and infrastructure.
   - Invest in Québec medium-sized firms that have the potential to become larger corporations.
   - Forge institutional partnerships to offer companies throughout Québec varied expertise and the best financial services and tools.

2. Serve as a bridge between Québec companies and global markets

   Offer diverse expertise, networks and investments to Québec companies that are capable of seizing international business opportunities to heighten their presence and accelerate growth.

   - Maximize our presence, networks and level of expertise in all major markets.
   - Invest in Québec companies and support their efforts to develop new products, expand international operations and accelerate growth.
   - Strengthen strategic partnerships with globally active institutional investors, while integrating them into initiatives to strengthen the Caisse's financial expertise.

3. Strengthen entrepreneurial and financial succession

   Strengthen the Caisse's presence in Québec's business and university communities in order to encourage entrepreneurship and enrich Québec's pool of financial expertise.

   - Support the development of greater entrepreneurship and business succession.
   - Continue to support development initiatives with universities and other partners in order to enhance financial expertise.

The Caisse's Achievements in Québec

HIGHLIGHTS

01 The Caisse's total assets in Québec grew $4.7 billion in 2011, to $41.2 billion.

02 Total assets in Québec's private sector grew $2 billion over the year, to $22.5 billion at the end of 2011.

03 Canadian Equity portfolio assets in Québec companies grew $600 million in 2011 and $1.2 billion since the end of 2009.

1. SEEK AND SEIZE THE BEST BUSINESS AND INVESTMENT OPPORTUNITIES

INVESTING IN AREAS WE KNOW WELL

In 2011, the Caisse made many investments by leveraging its comparative advantages, including its knowledge of the Québec business environment and market.

The Caisse is a major source of support to companies, typically at a crucial stage of their development, such as an expansion or acquisition project. At the present time, over 530 Québec companies receive this support through the different asset classes held by the Caisse.

CAISSE TOTAL ASSETS IN QUÉBEC BY INVESTMENT TYPE

(as at December 31 – in billions of dollars)

	2011	2010
Bonds	25.7	22.8
Equity Markets	3.3	2.7
Private Equity group	4.6	4.2
Real Estate group	7.6	6.8
Total	41.2	36.5
Private sector	22.5	20.5
Public sector	18.7	16.0
Total	41.2	36.5

Total assets in Québec

The Caisse's total assets in Québec were $41.2 billion as at December 31, 2011, up $4.7 billion from the previous year.

For a better understanding of the Caisse's different investments in Québec, Table 42 presents the Caisse's total assets by investment type: government and corporate bonds, publicly traded corporate securities, investments by the Private Equity group and investments by the Real Estate group. In 2011, total assets increased in each of these categories.

In the private sector, the Caisse is a long-term partner of choice for Québec companies. Total assets in the private sector were $22.5 billion at the end of 2011, up $2 billion from 2010. This demonstrates the Caisse's continuing commitment to Québec companies, which drive economic growth and job creation in Québec.

The Caisse's Achievements in Québec

Bonds: A $2.9 billion increase in assets

The Caisse's bond assets in Québec's public and private sectors totaled $25.7 billion as at December 31, 2011, up $2.9 billion over the previous year. The Caisse is a major holder of Québec government bonds, with a portfolio of close to $9.7 billion, or $700 million more than one year earlier (see Table 43).

The Caisse also plays a key role in the financing of public organizations in Québec, providing liquidity to this critical market. As at December 31, 2011, in addition to its holdings in Québec government bonds, the Caisse held $9 billion of Québec public sector bonds, up $2 billion from one year earlier.

The Caisse is very active in the private sector corporate bond market as well. As at December 31, 2011, total assets stood at $7 billion, up $200 million. For example, the many projects supported in 2011 included the Centre hospitalier de l'Université de Montréal (CHUM), the Seigneurie de Beaupré wind farms, as well as Garda and Cinéfix Média.

The Caisse's participation in a transaction often serves as a catalyst, attracting other, private investors to the project. The Caisse will continue to play this role, which encourages the financing of Québec companies.

ASSETS IN QUÉBEC – BONDS

(as at December 31 – in billions of dollars)

	2011	2010
Québec public sector		
Government of Québec	**9.7**	9.0
Hydro-Québec	**5.6**	4.4
Other crown corporations	**2.1**	1.6
Municipalities and para-governmental corporations	**1.3**	1.0
Subtotal	**18.7**	16.0
Private sector: corporate securities	**7.0**	6.8
Total	**25.7**	22.8

CENTRE HOSPITALIER DE L'UNIVERSITÉ DE MONTRÉAL (CHUM)

In 2011, the Caisse contributed $408 million to the $1.4 billion financing of the consortium that has the mandate to build and manage the new CHUM, a major project for the future of cutting-edge medicine in Québec. Once the construction is completed, the CHUM will have 772 private rooms and 39 operating rooms, and will bring together 36 medical specialties into a single location.

SEIGNEURIE DE BEAUPRÉ WIND FARMS

The Caisse contributed $25 million to the financing of Phase 1 of the Seigneurie de Beaupré wind farms in the Québec City region. Representing a total investment of over $750 million, the wind farms should be completed in December 2013 and their total generating capacity is expected to be 272 MW. The annual production of these two wind farms is enough to power approximately 50,000 homes.

Equity markets: The Caisse increases support to Québec publicly traded companies

As at December 31, 2011, Québec companies accounted for $3.3 billion of the Canadian Equity portfolio. This represents an increase of close to $600 million from the previous year and $1.2 billion more since the end of 2009.

This growth reflects, among other things, the Caisse's desire to further capitalize on an important comparative advantage: its proximity to and close relationships with local companies. Such relationships reflect the Caisse's deep knowledge of the Québec market. At the end of 2011, the Caisse had holdings in 44 publicly listed Québec companies.

On March 1, 2011, a new benchmark index comprised exclusively of Québec companies – the Morningstar National Bank Québec Index – was integrated into the Canadian Equity portfolio's benchmark index so that the portfolio would better reflect the reality of the Québec economy. In 2011, the portfolio's weighting of Québec securities increased 4% to 21% by the end of the year. By way of comparison, Québec companies represented 11% of the S&P/TSX index. This overweighting reflects the Caisse's deep knowledge of the Québec market and its confidence in Québec businesses.

For very small businesses, access to public capital markets is often the key to growth. Tapping into this source of financing represents a decisive step in their development. Investments by the Caisse afford these companies greater financial flexibility and often serve to attract other investors. This gives these securities a higher profile and greater liquidity, which leads to easier access to other sources of capital. The Caisse will continue helping publicly listed very small Québec businesses grow; this is why it created the Québec Small-Cap mandate (see box).

TOP 10 QUÉBEC POSITIONS – EQUITY MARKETS
(as at December 31, 2011)

Bombardier
Canadian National Railway Company
CGI Group
Dollarama
Gildan Activewear
Industrial Alliance Insurance and Financial Services
Power Corporation of Canada
RONA
Saputo
SNC-Lavalin Group

INDUSTRIAL ALLIANCE

In 2011, the Caisse acquired a block of shares worth close to $200 million (equity markets and private equity) in this Québec financial company, becoming its main shareholder in the process. Industrial Alliance is the fourth-largest life and health insurer in Canada. The Caisse's investment will be a valuable asset as the company implements its business plan and pursues growth in Canada and the U.S.

$50 MILLION IN NEW SUPPORT TO STRENGTHEN VERY SMALL SMALL-CAP QUÉBEC BUSINESSES

In April 2011, the Caisse created the Québec Small-Cap mandate in order to further expand its financing of very small businesses and support growth in Québec's future world-class corporations. The mandate gives the Caisse's investment teams on the equity markets $50 million to invest in publicly listed small-cap Québec companies that are successful and show promise. Here are but a few examples:

Mercator Transport Group is a Montréal company specialized in transport brokerage services, international logistics and distribution. The Caisse's investment will give Mercator the means to fulfill supply contracts with international clients.

Extenway supplies multimedia, connectivity and communications solutions to hospitals. It will use the Caisse's investment to market entertainment terminals to new clients.

Innoventé has an intelligent approach to generating electricity; it uses organic residues as an energy source. Established in Québec City, Innoventé has a plant at Saint-Patrice-de-Beaurivage, in the Chaudière-Appalaches region. The Caisse's investment will be used to complete construction of the plant.

The Caisse's Achievements in Québec

A $330 million increase in the Private Equity group's assets

The Caisse invests in the private equity of over 450 Québec companies, directly and through funds. Private equity investments are negotiated through mutual agreements with the companies. They are long-term investments in private companies that give the Caisse attractive returns. The Caisse is known for its great expertise in this area, acquired over the last 30 years, and for the value added it can provide in terms of business growth.

In 2011, the Caisse approved 70 new private equity investments worth $650 million. The investments were in companies such as Novatech (see box, p. 81), Kruger and GENIVAR. The Caisse's investment in CAD Railway Industries has allowed the company to capitalize on the recovery in North American rail transportation, and the funds invested in the Telecon Group will be used to finance its succession plan and several initiatives aimed at conquering new markets.

As at December 31, 2011, the Caisse had $4.6 billion in private equity assets in Québec, an increase of over $330 million from the previous year (see Table 45). Table 46 (p. 76) presents the Caisse's Top 10 private equity investments in Québec. This increase was due to the quality of the companies in the portfolio as well as new investments made during the year.

The Caisse will continue to support profitable Québec companies by providing financial support and sharing its expertise.

CASCADES GROUP: SUPPORTING THE GROWTH OF A LOCAL BUSINESS

The Caisse has invested $80 million in a project of the Cascades Group that will allow its Norampac division to become more competitive in a market niche with considerable growth potential. The new container board manufacturing plant in Niagara Falls, New York will be commissioned in the spring of 2012. The plant's efficient use of energy will make it one of the most profitable in the industry and will confirm the Cascades Group's status as an industry leader.

CROSS-CANADA EXPANSION OF ALT, THE QUÉBEC HOTEL CHAIN

The Caisse contributed $10 million of an $80 million investment in the Fonds d'investissement ALT Canada S.E.C. Led by Groupe Germain Inc., this transaction will finance expansion of the ALT hotel chain in Canada. Groupe Germain is well positioned to succeed with a 3-star hotel formula that it has tested in Sainte-Foy and the Dix30 shopping centre in Brossard. The Group is counting on this offer's ability to attract clients in Canada's largest cities. The Caisse's investment will be used to deploy the concept in Montréal, Toronto, Winnipeg and Halifax.

PRIVATE EQUITY GROUP ASSETS AND COMMITMENTS IN QUÉBEC

(as at December 31 – in millions of dollars)

	2011			2010		
	Assets	Undisbursed commitments	Assets and undisbursed commitments	Assets	Undisbursed commitments	Assets and undisbursed commitments
Venture capital	107	309	416	104	341	445
Small and medium-sized businesses	512	240	752	420	489	909
Large businesses	3,970	281	4,251	3,731	525	4,256
Total	**4,589**	**830**	**5,419**	4,255	1,355	5,610

FORGING PARTNERSHIPS WITH OTHER INSTITUTIONS TO BETTER SUPPORT COMPANIES

The Caisse sees the potential of SMEs all across the province, and it will continue to support them in their growth. To ensure that they have access to the Caisse's expertise and financial resources, in 2009 it entered into a new partnership with Desjardins Group, a financial institution that is well integrated into the social and economic fabric of Québec.

This three-year $600 million agreement has two components. The first is a $200-million fund, called Capital Croissance PME, designed to meet the financing needs of small companies. Its investments are primarily in the form of subordinated loans of under $3 million. The second component of the agreement has earmarked $400 million for financing medium-sized companies, primarily through conventional term loans of over $5 million and in the form of equity and quasi-equity.

In 2011, the Capital Croissance PME fund, a partnership of the Caisse and Desjardins Group, invested close to $60 million in some 60 Québec businesses across the province. The funds are being used to improve productivity and carry out projects for growth, among other things.

Since 2009, over $215 million has been invested in Québec companies under the terms of this agreement.

AN INVESTMENT WITH THE QUÉBEC MANUFACTURING FUND (QMF)

Created in 2006 with the Caisse's support, the QMF is a fund that helps the Québec manufacturing sector grow by providing support that goes beyond financing. Its specialists, who are known for their operational expertise, become actively involved with the owners and managers of the companies in which the QMF invests.

LIBERTY SPRING

The Caisse partnered with the QMF to provide financing to Liberty Spring of Montmagny. This investment will allow the company to undertake an orderly succession and will provide high-level support to improve productivity.

INVESTMENTS IN PARTNERSHIP WITH DESJARDINS

A regional leader in the hospitality industry
Inaugurated in 1974, Hôtel Forestel is the largest hotel complex in Abitibi-Témiscamingue. The company will use an investment by the Capital Croissance PME fund to upgrade all its services in anticipation of the increased and changing needs for hospitality services when the Plan Nord is implemented. Major works will include the renovation of the Convention centre and the expansion and restoration of 45 rooms.

A cutting-edge manufacturer
For over 38 years, VIF Mould and Plastics Industries has specialized in the design and manufacture of moulds and injection moulding of plastic parts. Its products and services are used mainly in the aerospace, medical equipment and electronics industries. The company is known for its considerable expertise in plastic-to-plastic and plastic-to-metal overlay moulding and for using robots to automate production.

A leader in sustainable agriculture
Productions Horticoles Demers is a family business and a Québec leader in sustainable agriculture. This Saint-Nicolas company produces tomatoes and small fruits for the Canadian market. Much of its production is grown in greenhouses, most of which are heated using biomass waste in order to minimize the environmental impact of operations. Energy produced during the day is stored in heat reservoirs and then used to heat the greenhouses at night. The company will use a capital injection to expand operations.

The Caisse's Achievements in Québec

MULTIBAR FOODS

The Caisse has committed $15 million in a major transaction with other partners as part of a project to finance the expansion and modernization of the Multibar Foods plant in Montréal. This investment will allow the company to expand production and add 80 new employees to its current staff of 550. The investment comes at a time when the company, a North American leader in the nutritional bar market, has just signed a major contract with a new client.

TOP 10 QUÉBEC INVESTMENTS – PRIVATE EQUITY GROUP
(as at December 31, 2011)

Alterinvest II Fund L.P.
Camoplast Solideal
Capital Croissance PME S.E.C.
GENIVAR
J.A. Bombardier (J.A.B.)
Novacap Industry III L.P.
Noverco (Gaz Métro)
Osisko Mining Corporation
Quebecor Media
SSQ Vie

Contributing to the vitality of the venture capital industry
The North American venture capital industry has been through some rough patches over the last few years, but in Québec it has held its own.

For example, in 2011, over half of the Canadian companies that received venture capital financing were located in Québec.

The Caisse has made a very real contribution over the last few years, investing $230 million in 12 venture capital funds in Québec. This commitment has led other investors to inject almost $1 billion in additional financing, representing a multiplier effect of approximately five times the Caisse's initial commitment. This demonstrates how the Caisse can act as a catalyst for investment in the venture capital industry.

Another example is the creation of the Teralys Capital fund. The Caisse is one of the main partners in this venture capital fund. Teralys Capital was very active in Québec in 2011, authorizing over $170 million in venture capital funding. These investments in Québec funds convinced other investors to invest twice as much in additional funding.

Real Estate group:
A dynamic unit with high-quality assets

The Caisse is well established in Québec's real estate sector. Its Real Estate group is a major investor in the Québec market with total assets of $7.6 billion as at December 31, 2011, up close to $780 million from the previous year (see Table 47).

Approximately 30 new investments were authorized in this sector during the year, totaling close to $800 million, including $160 million to acquire the Rockhill complex. At the end of 2011, the Caisse owned nearly 65 buildings and was financing over 400 commercial real estate properties in Québec.

The Caisse's real estate assets benefited from improved market conditions for office buildings and retail properties in 2011. The Real Estate debt portfolio also profited from market conditions, expanding its presence in these sectors. In its Québec investments, the Caisse's Real Estate group looks for high-quality buildings that are very well positioned in their market. The quality of the real estate portfolio is reflected in a 95% occupancy rate in the Caisse's holdings in 2011. Table 48 (p. 78) presents the Caisse's Top 10 real estate investments in Québec.

REVITALIZATION OF CHÂTEAU FRONTENAC

In 2011, Ivanhoé Cambridge began work on a major project that will restore all of Château Frontenac's original copper roofing. This work will help ensure the longevity of a valuable part of our Québec heritage. Additional investments of $66 million were announced in new renovation and expansion work and to showcase artifacts and works by Québec artists. The work will begin in 2012, and most of it will be completed by 2014. Furthermore, the contracting process will give priority to companies in the Québec City region and in Québec.

THE ROCKHILL COMPLEX

In 2011, Ivanhoé Cambridge acquired the Rockhill complex, a group of rental properties located in the heart of Montréal. Built in 1967, this complex has a thousand apartments in six buildings connected by an indoor passage.

REAL ESTATE GROUP ASSETS AND COMMITMENTS IN QUÉBEC

(as at December 31 – In millions of dollars)

	2011			2010		
	Assets	**Undisbursed commitments**	**Assets and undisbursed commitments**	Assets	Undisbursed commitments	Assets and undisbursed commitments
Offices	**3,254**	**129**	**3,383**	2,951	214	3,165
Retail	**3,280**	**89**	**3,369**	3,136	41	3,177
Other assets	**1,021**	**127**	**1,148**	689	18	707
Total	**7,555**	**345**	**7,900**	6,776	273	7,049

The Caisse's Achievements in Québec

Investing to maintain quality standards
Each year, as part of its real estate activities, the Caisse makes major investments to reposition and renovate its properties. In 2011, these investments injected close to $50 million into the Québec economy, mainly through major work at the Mail Champlain in Brossard and the Château Frontenac in Québec City (see box, p. 77).

Furthermore, the Caisse's Real Estate group makes investments every year in order to improve its environmental performance. In 2011, 10 Ivanhoé Cambridge buildings received BOMA BESt environmental certification from the Building Owners and Managers Association, including Carrefour Saint-Georges (Saint-Georges), Carrefour Frontenac (Thetford Mines), the Les Rivières shopping centre (Trois-Rivières), the Mail Champlain shopping centre (Brossard), Rockland Centre (Mont-Royal) and the 1500 University building (Montréal). BOMA BESt certification is bestowed on buildings that have met rigorous sustainable development criteria.

Other environmental awards this year:

- Centre CDP Capital won the Canadian Environment Award from the Building Owners and Managers Association for the importance given to environmental considerations.
- The 1000 De la Gauchetière Ouest building, in Montréal, obtained the Écolectrique award from Hydro-Québec for a marked reduction in electrical power consumption.

TOP 10 QUÉBEC INVESTMENTS – REAL ESTATE GROUP
(as at December 31, 2011)

1000 De La Gauchetière Ouest, Montréal
Centre CDP Capital, Montréal
Centre Eaton de Montréal, Montréal
Fairview Pointe-Claire, Montréal
Galeries d'Anjou, Montréal
Laurier Québec, Québec
Place Ville Marie, Montréal
Rockhill Complex, Montréal
Rockland, Montréal
World Trade Centre Montréal, Montréal

2. SERVE AS A BRIDGE BETWEEN QUÉBEC COMPANIES AND GLOBAL MARKETS

For the Caisse, economic growth and wealth creation in Québec depend largely on the ability of Québec companies to carve out a niche in global markets and increase exports.

The Caisse believes that Québec has dozens of small and medium-sized businesses that could become major global players. Given the limited size of the Québec and Canadian economies, the continued growth of Québec-based companies depends on diversifying into global markets. At the present time, most of Québec's exports go south of the border. Only 15% of Québec's international exports go to Europe, and only 9% go to Asia.

Today and tomorrow, competition and business opportunities will come from all over the world. Québec has the ability to meet this challenge and seize these opportunities, and the Caisse has a major role to play – as a bridge to the world – with Québec companies able to conquer global markets. In the years to come, the Caisse will continue developing and intensifying this part of its strategy.

GENIVAR

The Montréal professional services firm GENIVAR is solidly established in Québec and across Canada. It is involved in many projects related to the construction, transportation, municipal infrastructure, industrial, energy and environmental sectors. GENIVAR, which has offices in over 100 Canadian cities, is also present in France, Colombia and Trinidad and Tobago and has carried out projects in over 35 countries. Believing that this Québec firm has the potential to carry out its international acquisition and growth strategy, the Caisse invested $80 million in GENIVAR in 2011 as part of a $160 million private equity investment.

INVESTING IN QUÉBEC COMPANIES WITH A VIEW TO STRENGTHENING THEIR INTERNATIONAL GROWTH

The Caisse has much to offer promising Québec companies: a global reach, investments in global markets, international business networks and expertise in new markets. The goal is to support their growth projects to help make them champions on the world stage – for the benefit of Québec.

This "Bridge to the World" vision will be achieved not only through investments but also by organizing discussion forums on best practices for meeting the challenges of market globalization.

MORGAN SCHAFFER

Established in LaSalle, Morgan Schaffer was founded in 1965, becoming the first commercial laboratory in North America with dissolved gas analysis (DGA) expertise. Since then, it has continually consolidated its expertise and built an international reputation in monitoring solutions for large high-voltage transformers. The Caisse has been a partner of this company since 1999, supporting its efforts to become established in the global market. Today Morgan Schaffer has clients in 75 countries.

In 2011, Morgan Schaffer continued to grow internationally, deploying its Calisto multi-gas technology in Singapore, New Zealand and Macau.

The Caisse's Achievements in Québec

FORGING PARTNERSHIPS WITH INSTITUTIONAL INVESTORS WORLDWIDE

The Caisse plans to use its critical mass, global reach and credibility in global markets to further expand its networks throughout the world, particularly in emerging countries. This is why it has developed and established two major partnerships with institutions that are well positioned in the international arena.

Successful partnerships for Québec companies

Whether they plan to acquire a competitor or expand international operations, Québec medium-sized companies face many obstacles on the path to international expansion. Recognizing these challenges, the Caisse and HSBC Bank Canada joined forces to create a financing solution for international investment projects. The complementarity of their financing and service offering, coupled with their vast network, represents truly unique support for Québec companies.

Access to an extensive and solid network is crucial if entrepreneurs are to capitalize on business opportunities abroad. This is why the Caisse and AXA Private Equity reached an agreement in 2009 to share their respective networks. The Caisse knows the North American market, while AXA Private Equity is well known in Europe and Asia. Since then, nearly 40 companies in Québec and Europe have benefited from networking opportunities on both sides of the Atlantic.

BSA MAKES THE MOST OF NETWORKING OPPORTUNITIES

BSA is a Montréal company specialized in technical services for the food and meat processing industry. The Caisse and AXA Private Equity placed BSA's managers in touch with the Sfinc Group in Belgium. The two companies' executives then met in Belgium and were able to reach an agreement on marketing a line of products. This agreement will allow BSA to begin distribution to the retail food sector this year.

3. STRENGTHEN ENTREPRENEURIAL AND FINANCIAL SUCCESSION

For the Caisse, entrepreneurial renewal is essential to Québec's economic development. The Caisse plays a crucial role in the Québec economy as a financial integrator. The Caisse is active, directly and indirectly, in all the finance-related occupations and helps maintain an active and modern financial sector in Québec. This allows the Caisse to act as a catalyst for economic development and growth.

FOSTERING GROWTH OF ENTREPRENEURSHIP AND SUPPORTING CORPORATE SUCCESSION

The Caisse is a long-term investor. This means that it can be effective in facilitating ordered and gradual transfers of business ownership. The Caisse's investment horizon and flexibility allow it to invest in the partial buyout of a company founder's equity position and assist in the development of a structured succession plan.

NOVATECH GROUP: ENTREPRENEURIAL SUCCESSION

This Sainte-Julie company manufactures exterior door components and door glass, including retractable screens and patio doors. Novatech has been growing for the last 30 years and is now active in more than 15 countries worldwide. As part of a staged succession transfer program, the Caisse acquired some of the Novatech founder's shares for $17 million. It has played a key role in the transfer while supporting the new management's initiatives to grow the company.

The Caisse supports entrepreneurial succession and the dissemination of financial expertise in Québec through its support for the Collège des administrateurs de sociétés, a corporate management college associated with Université Laval. The Collège designs professional development programs for the members of boards of directors and, in collaboration with McMaster University, has developed a university-level certification program in corporate governance that is recognized across the country. In the last six years, 427 people on over 900 boards of directors have earned this degree.

In the interest of supporting the growth of Québec companies, in 2011 the Caisse began a series of actions that have allowed its investment teams to forge closer ties with members of the business community and share its financial expertise.

The following is a brief overview of the steps taken this year:

- Information meetings with over 200 Québec SMEs and large corporations, and presentations to 400 financial intermediaries;
- Appointment of seven Caisse representatives covering 13 Québec regions;
- A tour of the regions that visited 20 Québec cities in order to better understand regional issues and challenges and explain the Caisse's role and the nature of its financing offer;
- The "Dialogues" conferences on the challenges posed by globalization. These conferences brought together 600 corporate executives and business people in five Québec cities;
- The production of videos and webinars on business issues such as foreign exchange strategies and international taxation;
- Collaboration with the Fondation de l'entrepreneurship to promote the Québec Entrepreneurial Index;
- Support for the activities of the QG100 Network, a group of business owners who support the internationalization of Québec companies.

With other partners and the Government of Québec, in 2011 the Caisse developed a new support program for entrepreneurs, to be launched in 2012. The goal of the program is to identify the most promising entrepreneurs in each of Québec's regions and, through financial support and sustained mentoring, give them every opportunity to succeed.

The Caisse also helps strengthen the management of Québec companies by recommending directors with relevant experience for the boards of directors of the companies in its portfolio. Furthermore, when the Caisse makes investments in manufacturing firms, its Private Equity teams ensure that they have access to renowned experts.

The Caisse's Achievements in Québec

CONTINUING TO SUPPORT DEVELOPMENT INITIATIVES WITH UNIVERSITIES AND OTHER PARTNERS IN ORDER TO ENHANCE FINANCIAL EXPERTISE

Human capital is an essential part of fostering a dynamic financial industry. The Caisse believes that the industry must continue to invest in order to develop a large pool of financial expertise. In 2011, the Caisse continued to proactively share its knowledge and expertise by building stronger ties with the university community and supporting entrepreneurial succession.

Partnerships with universities – particularly business schools – are central to the Caisse's commitment.

The following is a brief summary of the Caisse's initiatives in 2011:

- Financial support for the operation of UQÀM's trading room
- Creation of a research chair in portfolio management at UQÀM
- Support for the short post-graduate program in finance, intended for engineers, at the École de technologie supérieure
- Support for Concordia University's program in sustainable development and responsible investment
- Presentations on careers in finance, made to approximately 300 students at nine Québec universities
- Launch of a new internship program at the Caisse

In addition, each year the Caisse awards major scholarships to four students at the École d'entrepreneurship de Beauce. The Caisse also actively supports the Concours québécois en entrepreneuriat.

Supporting initiatives that drive Québec's financial industry

The Caisse's contribution to the Québec financial industry may be measured in many different ways. For example, it is interesting to note that of the $3 billion in banking transactions that the Caisse carries out every day, more than two thirds are processed through banks and brokers located in Québec.

Furthermore, the Caisse and its Real Estate group spend close to $550 million each year in Québec. More than 2,000 Québec suppliers meet the needs of this high volume of activities, which helps create or maintain many jobs in the province (not to mention the impact on the development of financial expertise). The Caisse's Policy on Contracts for the Acquisition or Leasing of Goods and Services also facilitates its contribution to economic development and sustainable development. The goal of this policy is to encourage Québec suppliers, provided they meet the Caisse's cost and quality criteria.

FINANCE MONTRÉAL

The Caisse also contributes to the financial industry by supporting its structural initiatives. For the last two years, the Caisse has partnered with Finance Montréal, Québec's new financial cluster. The Caisse supports this organization in its commitment to strengthening the province's financial sector, initiating new business activities, encouraging business creation and attracting international companies to Québec.

Donations and sponsorships to benefit Québec communities

Each year, as a responsible corporate citizen, the Caisse provides financial support to organizations with a mission to contribute to the betterment of the community at large and to the advancement of the business community. This contribution mainly takes the form of donations and sponsorships. In 2011, the Caisse made nearly $2.3 million in contributions to various organizations and events.

Through its Policy on Donations and Sponsorships, the Caisse makes a major contribution in the areas of business leadership, talent renewal and knowledge development.

Here are a few examples of projects that the Caisse supported in 2011:

- **Québec manufacturing sector**: the Caisse supported an exhaustive study of the future of Québec's manufacturing sector, conducted by Deloitte.
- **Québec International**: through the Caisse's support, Québec International organized a series of seminars on exporting.
- **The "Exporting Québec" initiative of the Board of Trade of Metropolitan Montreal**: the Caisse helped create seminars on penetrating emerging markets.

Finally, the Caisse and its Real Estate group supported their employees' Centraide fundraising campaign.

Sustainable Development Report

HIGHLIGHTS

01 Meeting with representatives of government agencies on sustainable development practices

02 LEED-EB Gold certification for the Centre CDP Capital building

03 Raising employee awareness on sustainable development through ÉcoCaisse capsules

A THREE-YEAR ACTION PLAN

Sustainable development fits naturally into the Caisse's activities, which affect both the management of depositors' funds and Québec's economic development. This is why the Caisse adopted a Sustainable Development Action Plan in 2009 to structure all its initiatives from 2009 to 2011. The plan is based on best practices and the Sustainable Development Act, R.S.Q. c. D-8.1.1. It has 11 actions based on the nine organizational objectives adopted by the Caisse. A sustainable development committee consisting of representatives from the Caisse's different units oversees implementation of the plan.

The following nine organizational objectives were adopted:

1. Promote the sustainable development initiatives of the Caisse and its subsidiaries.
2. Educate and inform employees regarding sustainable development.
3. Contribute to the overall discussion on sustainable development.
4. Establish working conditions conducive to employee health.
5. Develop responsible practices for the procurement of goods and services.
6. Promote sound environmental management.
7. Help protect Québec's cultural heritage.
8. Increase cooperation with partners on sustainable development projects.
9. Support non-profit organizations that help prevent and fight poverty.

CONCRETE INITIATIVES FOR SUSTAINABLE DEVELOPMENT

Since 2009, the Caisse has established a continuous awareness program that encourages employees to engage in behaviour consistent with sustainable development practices, both at work and at home.

In 2010, the Caisse implemented various events, including a week of sustainable development awareness-raising activities, and provided several tools to employees such as the Green Guide, which highlights four types of green practices: recycle, reuse, reduce and rethink.

In 2011, the Caisse continued to organize events to explain its sustainable development approach. This included a seminar on responsible investment for depositors, during which the Caisse presented its policy on the subject. This annual report includes a section specifically on responsible investment (see p. 91). The Caisse also pursued its continuous education program in 2011, informing employees about different aspects of sustainable development through its employee newsletter and ÉcoCaisse capsules and by promoting its Green Guide.

The Caisse will continue to play a role in sustainable development in the years to come. The following Action Plan describes the main initiatives taken in 2011, as well as in 2009 and 2010.

Sustainable Development Report

CAISSE SUSTAINABLE DEVELOPMENT ACTION PLAN: STATUS REPORT

Organizational objective

Promote the sustainable development initiatives of the Caisse and its real estate subsidiaries.

ACTION 01	Milestones	Initiatives
Present the sustainable development concept and principles to the Caisse's stakeholders	**2011**	A seminar was held on responsible investment for depositors. The seminar presented the Caisse's responsible development policy, its approach to dialogue with companies in the portfolio on environmental, social and governance (ESG) issues and risks, and the tool for including ESG factors in the investment analysis process.
	2010	Steps were taken to identify and categorize all the corporate social responsibility (CSR) work and actions by the Caisse and its subsidiaries. The Caisse also developed a new section on its website dedicated to its sustainable development and social responsibility activities.
	2009	Publication of a responsible investment (RI) report.

Organizational objective

Inform and educate employees on the sustainable development initiatives of the Caisse and its real estate subsidiaries.

ACTION 02	Milestones	Initiatives
Implement activities instrumental in achieving the Government's Plan to raise awareness and train public sector employees	**2011**	Training on responsible investment given to portfolio managers and analysts in the investment units as well as managers in the risk unit. Employees took part in training given by the ministère du Développement durable, de l'Environnement et des Parcs and attended conferences on sustainable development. Presentation of the Caisse's 2009-2011 Sustainable Development Action Plan at orientation sessions for new employees. Education on sustainable development through an internal newsletter, the Employee Green Guide and ÉcoCaisse capsules on the Intranet.
	2010	Employee participation in training by the ministère du Développement durable, de l'Environnement et des Parcs. Development of a plan for portfolio manager training on responsible investment. Sustainable Development Week (April 19-23, 2010) for employees with many awareness activities, including lunch-hour meetings with representatives of Équiterre and Québec companies, information stands providing tips and ideas for more responsible consumption, as well as collection of used bicycles, books and non-perishable food. Presentation of the Sustainable Development Action Plan at orientation sessions for new employees. Education on sustainable development through an internal newsletter, the Employee Green Guide and ÉcoCaisse capsules on the Intranet. More events in the internal conference program established in 2009: 450 participants over five sessions.
	2009	Awareness of sustainable development through the employee newsletter (publication of three articles and two ÉcoCaisse capsules). 2009 conference program: 536 participants over eight sessions.

Sustainable Development Report

Organizational objective

Contribute to the discussion on sustainable development.

ACTION 03	**Milestones**	**Initiatives**
Participate in sustainable development events and groups	**2011**	Working relationship established with a sustainable development officer at a government agency to participate in a 2011 conference and on how to implement sustainable development action plan, taking into account the organization's mission. Organization of a meeting with sustainable development officers at Crown corporations to discuss the next sustainable development action plans and strategies for the next few years.
	2010	Creation of a discussion group bringing together stakeholders from government bodies responsible for sustainable development to discuss the actions and initiatives of each organization and see whether a partnership should be established for joint action.

Organizational objective

Establish working conditions conducive to employee health and safety.

ACTION 04	**Milestones**	**Initiatives**
Invest in risk prevention to ensure employee health and safety	**2011**	Meetings of a committee of employees from different Caisse units to discuss the work environment. Topics covered included ergonomics and the partial replacement of individual water bottles with pitchers or large containers in conference rooms. Development of the *Mieux faire et être* program, which includes a series of initiatives to improve efficiency and quality of life in the workplace. Deployment began in 2011 and will continue in 2012. In 2011, a program was introduced to modernize IT tools.
	2010	Committee meetings on workplace prevention, which encouraged the Caisse to reconsider the location of printers and endorse decisions about replacing water dispensers with water coolers and composting paper towels in the restrooms. Implementation of employee safety programs.
	2009	Creation of a prevention committee (meeting held in December), composed of employees from all Caisse units.

Organizational objective

Develop responsible practices for the procurement of goods and services.

ACTION 05	Milestones	Initiatives
Implement practices and activities that fulfill eco-responsible government policy provisions	**2011**	Continued implementation of eco-responsible measures for acquisitions of goods, including recycled paper and ink cartridges, many ecological office supplies, and soap distributors with large-format refills. Internal printing of business cards, which has reduced the minimum order amount.
	2010	Adoption of the Policy on Contracts for the Acquisition or Leasing of Goods and Services, which reflects 16 sustainable development principles. Implementation of a specific guideline for computer equipment purchases.
	2009	Inclusion of sustainable development criteria in the standard tender document. Design of the "green office" guide for employees (distributed in December).

Sustainable Development Report

Organizational objective

Promote sound environmental management at the Caisse and its real estate subsidiaries.

ACTION 06	Milestones	Initiatives
Implement measures for environmental building management	**2011**	LEED-EB Gold certification for Centre CDP Capital, the Caisse's main business office. National BOMA Environment Award for Centre CDP Capital. BOMA BESt certification for several Québec office buildings.
	2009	BOMA BESt certification maintained. LEED certification for the Caisse's business office (Centre CDP Capital): confirmation on September 11, 2009. LEED certification for a Vancouver building under construction: confirmation of pre-certification, pending completion of construction. Creation of SITQ Group building tenant committees: first meetings held in 2009.

ACTION 07	Milestones	Initiatives
Implement an environmental management system for the Caisse's Montréal business office	**2011**	Postponed adoption of the sustainable development policy by the real estate subsidiaries due to their merger under the Ivanhoé Cambridge banner.
	2010	Monitoring of measures related to the Montréal office's ecological footprint to maintain a level of excellence and to reduce its footprint. The monitoring results encompass the amount of produced waste, the percentage of recycled waste, the quantity of water consumed, the quantity of energy consumed and the quantity of paper consumed and recycled. Development of an environmental management system that will be implemented in 2011. In 2010, all Centre CDP Capital management activities were first analyzed based on key environmental aspects and impacts, then prioritized. Improvement targets were subsequently established.
	2009	Creation of a "Green" committee at Centre CDP Capital, composed mostly of tenants.

Organizational objective

Help protect Québec's cultural heritage.

ACTION 08	Milestones	Initiatives
Promote Québec's cultural heritage	**2011**	Exhibition of several works of art from the Caisse's collection, during the summer of 2011. This exhibition was accessible to employees and the general public.
	2010	Exhibition of several works of art from the Caisse's collection during the summer of 2010. This exhibition was accessible to employees and the general public.

Organizational objective

Increase cooperation with national and international partners on integrated sustainable development projects.

ACTION 09	Milestones	Initiatives
Work with a partner on a sustainable development project	**2011**	Joint activity by the Caisse and Invanhoé Cambridge, working with Équiterre to promote its mission and participate in its financing activity. Activity with Équiterre in support of organic farming. The Caisse established a drop-off point used to distribute baskets of organic vegetables so that participating employees can pick up their vegetables at the workplace.
	2010	Activity by a real estate subsidiary with Équiterre to promote its mission and participate in its financing activity.

Sustainable Development Report

Organizational objective

Support non-profit organizations that help prevent and fight poverty and social exclusion.

ACTION 10	**Milestones**	**Initiatives**
Support philanthropic causes	**2011**	Development of a volunteer program in 2011. Annual fundraising campaign for Centraide.
	2010	Annual fundraising campaign for Centraide. Development of volunteer program at real estate subsidiaries.
	2009	Real estate subsidiary Ivanhoé Cambridge established a permanent volunteer program, Give & Take, to encourage its employees to do volunteer work. It offers two days of paid leave to employees who devote one of the two days to volunteering at a charity of their choice. In 2009, more than 400 employees participated in the program, representing nearly 28% of the subsidiary's workforce.

ACTION 11	**Milestones**	**Initiatives**
Implement a company diversity program	**2011**	Diversity Week (November 14-18, 2011)
	2010	Diversity Week (November 29-December 3, 2010). Creation of an Equal Access to Employment committee. An Equal Access to Employment program implementation report was tabled. Multicultural team management training for team leaders.
	2009	Diversity Week (June 1-5, 2009)

Responsible Investment Report

Responsible Investment Report

HIGHLIGHTS

01 In 2011, the Caisse exercised its voting rights at 4,890 shareholder meetings.

02 The Caisse helped implement Concordia University's Sustainable Investment Professional Certification Program.

03 The Caisse participated in a number of conferences to explain its responsible investment approach.

PRACTICING RESPONSIBLE INVESTMENT MANAGEMENT

The Caisse's mission is to receive moneys on deposit as provided by law and manage them with a view to achieving optimal return on capital within the framework of depositors' investment policies while at the same time contributing to Québec's economic development. The Caisse takes two approaches to investing: active, by selecting public companies and investing in private equity, infrastructure or real estate, or passive, by investing to model the composition of the market indexes in order to reproduce their returns.

In its active investing, the Caisse promotes responsible investment in many ways. It begins by analyzing environmental, social and governance factors, the non-financial dimensions and risks of an investment known as ESG. Moreover, it encourages sound corporate governance practices. The Caisse's approach is defined in the Policy on Responsible Investment available on its website (www.lacaisse.com).

PROACTIVE ENGAGEMENT FOR MANY YEARS

The Caisse ushered in a responsible investment approach in 1994 with the systematic exercise of voting rights in public companies. In 2005, following a benchmarking exercise conducted among its peers, the Caisse adopted the Policy on Responsible Investment, which was updated in 2010.

A signatory of the UN Principles for Responsible Investment (PRI), the Caisse incorporates these principles into its approach. The PRI were launched in 2006 in cooperation with major asset holders and managers, including the Caisse.

THE CAISSE'S RESPONSIBLE INVESTMENT APPROACH

As one of Canada's largest institutional investors, the Caisse has many resources on hand to influence companies' social responsibility, environmental and governance practices.

Its approach takes account of returns on depositors' funds and their expectations, notably in terms of risk and responsible investment.

As an institutional investor, the Caisse occasionally invests in sectors considered controversial. In such cases, the Caisse applies the approach set out in its Policy on Responsible Investment. This policy is structured along the following lines:

1. Shareholder engagement
Shareholder engagement activities take shape through the Caisse's proactive dialogue with companies, independently or in collaboration with investor groups, to improve the level of information available about the companies in which it invests and to influence their responsible business practices. The Caisse's shareholder engagement activities also include the systematic exercise of its voting rights at shareholder meetings.

2. Environmental, social and governance (ESG) criteria
ESG criteria are integrated into the overall analysis of actively managed investments.

3. Exclusions
Although shareholder dialogue and engagement remain the primary tools of its Policy on Responsible Investment, the Caisse may exclude from its actively managed portfolio, if exceptional circumstances warrant it, securities in violation of local or international law. These matters are reviewed by an internal committee made up of employees from different sectors, including investment sectors.

Table 50 describes the structure of the Caisse's responsible development approach.

2011 RESPONSIBLE INVESTMENT REPORT

In addition to exercising voting rights and dialoguing with companies, the Caisse was involved in numerous activities in 2011, including implementing a training program with Concordia University, launching a research program with a Université de Sherbrooke professor and holding meetings with depositors on responsible investment. The Caisse also attended conferences on responsible investment and organized activities with groups such as the Canadian Coalition for Good Governance, and with other investors.

In 2011, the Caisse also took action based on the three prongs of its Policy on Responsible Investment.

1. SHAREHOLDER ENGAGEMENT

As per its policy, the Caisse positions itself as a partner, working with companies and helping them improve their social responsibility in various ways.

In its responsible investment approach, the Caisse interacts with companies to obtain information more relevant to all shareholders. Through shareholder engagement, the Caisse expresses its views and positions on ESG-related issues or problems. It usually communicates privately with companies, this being a more effective approach. Accordingly, the Caisse generally does not disclose the names of companies with which it has communicated.

Certain investment sectors in which the Caisse is prominent present significant shareholder engagement challenges when it comes to responsible investment principles. One example is natural resources. The Caisse is confident that its influence and willingness to cooperate with companies in these sectors bring about improvements in terms of the environment, more efficient technologies and respect for communities.

THE CAISSE'S RESPONSIBLE INVESTMENT APPROACH

Vision	The Caisse is a responsible shareholder and acts in a fiduciary spirit to provide risk-adjusted, long-term returns.
Policies	Policy on Responsible Investment Policy on the Principles Governing the Exercise of Voting Rights of Public Companies
Approach	Shareholder engagement ESG criteria Exclusions
Activities	Voting rights Direct dialogue Collaborative initiatives Dialogue between stakeholders and industry Risk analysis Research Review of individual cases

Responsible Investment Report

At the beginning of 2011, the Caisse identified shareholder engagement themes concerning which it planned to take action or initiate dialogue with portfolio companies. The themes were chosen based on the following criteria:

- ESG risk analysis by sector and exposure to risks defined as significant in portfolio investments;
- the ability to intervene and potential levers for dialogue with companies, either directly or through groups.

From the identified themes, shareholder engagement activities in 2011 focused primarily on environmental and social issues associated with natural resource use, governance and water.

1.1 Shareholder engagement through the exercise of voting rights

Each year, the Caisse analyzes all proposals tabled at the shareholder meetings of public companies in its portfolios.

An internal team exercises voting rights at the shareholder meetings of Canadian and U.S. companies. For international companies, votes are exercised by an external supplier in accordance with the Caisse's policies and guidelines. All voting positions for Canadian and U.S. companies are published on the Caisse's website (www.lacaisse.com).

For shareholder meetings of international companies, the internal team ensures that the supplier votes in accordance with the Caisse's policies.

2011 voting report

Below are the highlights for 2011 regarding the exercising of voting rights.

The Caisse voted on 48,001 proposals at 4,890 shareholder meetings.

- Canada: 205 meetings
- United States: 717 meetings
- International: 3,968 meetings

12% of the Caisse's total votes in 2011 were against management proposals.

- 8%: Canada
- 12%: United States
- 12%: International

Votes on management proposals

Most proposals at shareholder meetings are submitted by the company's management and are related to the election of directors, the appointment of auditors or other matters that arise in the normal course of business.

Although the Caisse usually supports management recommendations, it will sometimes oppose them. Table 51 provides examples of such opposition in Canada and the United States.

EXAMPLES FOR OPPOSITION

[illegible]	[illegible]	Reasons
CONSULTATIVE VOTE ON EXECUTIVE COMPENSATION	Out of a total of 718 resolutions presented, the Caisse voted against management in 11% of cases.	Compensation is not linked to the company's performance or the disclosures made by the company are incomplete.
ELECTION OF DIRECTORS	Out of a total of 6,688 resolutions, the Caisse voted against management in 7% of cases.	The Board of Directors is not composed of a majority of independent directors.

Votes on shareholder proposals
Shareholder proposals submitted at meetings are reviewed and analyzed on a case-by-case basis. In 2011, the Caisse voted on 435 shareholder proposals at meetings of Canadian and U.S. companies, and supported 325 of these proposals.

Table 52 (p. 96) provides examples of shareholder proposals reviewed by the Caisse in 2011.

EXAMPLES OF POSITIONS TAKEN BY THE CAISSE

Sustainable development report
The Caisse supports resolutions requiring companies to produce a sustainable development report, if they are not already doing so. The Caisse expects companies to behave responsibly wherever they operate. With this in mind, it encourages disclosure of the environmental and social practices of companies.

Board diversity
The Caisse supports resolutions to improve parity on boards of directors. It supports measures to broaden the pool of individuals qualified and competent to stand for election as directors.

Responsible Investment Report

EXAMPLES OF SHAREHOLDER PROPOSALS SUPPORTED BY THE CAISSE IN 2011

Resolutions	FOR Votes	FOR Vote Reasons	Company Examples	AGAINST Vote Reasons
Periodic report on political contributions	39 out of 42 proposals (93%)	The proposal calls for the full and transparent disclosure of company practices regarding political contributions.	Boeing Co. Citigroup Inc. 3M Company	The company is making the necessary efforts to disclose all of its political contributions.
Give shareholders the right to call a special meeting under some conditions	27 out of 27 proposals (100%)	The proposal gives shareholders a stronger voice.	American Express Co. PepsiCo Inc. Home Depot of Canada Inc.	N/A
Separation of Board Chairman and Chief Executive Officer positions	16 out of 26 proposals (62%)	The Board did not appoint an independent director to act as lead director and ensure effective work progress.	Boeing Co. Wells Fargo & Company Whole Foods Market, Inc.	The Board appointed an independent director to act as lead director and ensure effective work progress.
Election of directors by majority vote	24 out of 24 proposals (100%)	Electing directors by majority vote gives shareholders a stronger voice.	Apple Caterpillar Inc. Lorillard Inc.	N/A
Annual election of directors	23 out of 23 proposals (100%)	The annual election process makes it possible to periodically assess all directors.	Best Buy Co. Mcdonald's Corporation Western Union Co.	N/A
Cumulative vote	19 out of 19 proposals (100%)	The principle of proportionate representation in investments by way of cumulative voting gives shareholders a stronger voice in the election of directors.	Goldman Sachs Group, Inc. Home Depot of Canada Inc. Wells Fargo & Company	N/A
Majority vote for various issues	12 out of 12 proposals (100%)	An absolute majority vote should be sufficient to approve changes in corporate governance.	Google Inc. Netflix Inc. Southwest Airlines Co.	N/A
Sustainable development report	7 out of 8 proposals (88%)	The company does not disclose sufficient information on environmental or social issues.	SunTrust Banks, Inc. Southern Union Co. Boston Properties, Inc.	The company's commitments address concerns raised in the proposal.

1.2 Shareholder engagement through direct dialogue with companies

The Caisse carries on a direct dialogue with its portfolio companies in many ways, for instance, by exercising its vote in order to obtain more information, making its voting position known to companies, or identifying specific concerns.

The Caisse holds a direct dialogue mainly with companies on the Canadian market and a few international companies. All Canadian public companies in the Caisse's actively managed portfolio were contacted during 2011, either as part of its process of making companies aware of the importance of completing the Carbon Disclosure Project questionnaire for greenhouse gas reporting, or at shareholder meetings or at meetings with the Caisse's managers or analysts. ESG issues were regularly addressed at these meetings for purposes of reviewing the company's ESG practices, or discussing a specific matter in which the Caisse hoped to see improvement.

Many engagement activities with companies took place outside shareholder meetings. Mining and natural resource companies were targeted in connection with shareholder engagement priorities defined at the beginning of 2011. We visited operating sites to check points that had been discussed or to initiate dialogue.

On the whole, we noted improved environmental and social disclosure in companies with which the Caisse had opened dialogue, along with greater awareness and prioritization of such issues. Practical steps were taken to improve community relations and mitigate the environmental impact of operations.

For example, seven companies with tar sands operations formed a partnership to pool technology developed to reduce the environmental impacts of settling basins (sedimentation). The same companies also announced a future joint initiative related to water, greenhouse gas and territorial claims issues. The Caisse discussed these issues with most of these companies.

EXAMPLES OF DIALOGUE WITH COMPANIES

Director participation in compensation plans

The Caisse is generally in favour of limiting director participation in stock-based compensation plans. The number of share grants must be less than 1% of the outstanding shares. The Caisse noticed that a company's directors could participate in this kind of plan on a discretionary basis. The company was contacted and it was agreed that, to preserve director independence, its compensation committee would limit director participation.

Quorum

A company's bylaws stated that the board of directors was empowered to set the required quorum for directors' meetings. The Caisse expects the majority of directors to be the quorum for meetings. Moreover, the quorum for shareholder meetings was set at one person holding at least 10% of the votes. The Caisse expects the quorum to be reached when at least two people holding more than 25% of the votes are present or represented. The Caisse contacted the company, which confirmed that, in practice, the majority of directors constituted the quorum at meetings. The company also agreed to increase the shareholder meeting quorum at the next meeting.

Suncor

The Caisse established a sustained dialogue with Suncor and commends its environmental initiatives, which the Caisse encouraged. Suncor immediately qualified for the three responsible investment indexes – Dow Jones Sustainability Index, Jantzi Social Index and FTSE4Good Index – in addition to ranking first in 2011 in the Carbon Disclosure Project's Carbon Disclosure Leadership Index for the quality of its greenhouse gas emission disclosure. Notably, Suncor developed an innovative and award-winning* tailings management process (TRO™) to significantly improve the speed of tailings reclamation, thereby reducing environmental impacts. Embarking on this unprecedented collaborative process, Suncor shared this technology – a note-worthy accomplishment in this industry – with six companies as part of a research-sharing agreement.

* ASTech 2010 award
Alberta Science and Technology Leadership Foundation)

Responsible Investment Report

EXAMPLES OF DIALOGUE WITH COMPANIES (CONTINUED)

Social measures in a conflict area
After visiting the operations of a company located in an area of political conflict and violence, the Caisse initiated a dialogue on implementing measures to smoothly integrate the company's operations into community life. This essentially led to a multi-faceted, local public health and education program.

In 2011, for instance, the company launched a new student program to improve academic performance along with a program to identify students most likely to succeed at university. Security for inhabitants in the operations area was another social measure that was put in place. The company implemented a communications system enabling it to quickly respond to security incidents in the operations area.

Lastly, a relationship with a NGO was followed up after the NGO criticized the company's practices the previous year. At the request of several shareholders, including the Caisse, a dialogue was begun with the NGO in question.

1.3 Shareholder engagement through joint initiatives with companies

The Caisse is involved in many shareholder engagement activities with other investors.

In 2011, the Caisse participated in a local initiative launched by *CDP Water Disclosure* of the *Carbon Disclosure Project*, combining 354 investors worldwide, to send a letter to 425 large-cap companies. The companies were asked to answer a questionnaire on management of water issues, including water policies and strategies, geographic area of company operations, risk indicators, operational risk management, financial impacts related to water issues, measurement of recycled, reused or wasted water during operations, and intensity measurements. The results showed a definite interest in water issues and are rather good for an initiative that is only in its second year. The response rates were:

- 60% of invitees from the Global 500;
- 41% of invitees from the ASX 100 in Australia;
- 46% of invitees from the JSE 100 in South Africa.

The main findings showed that:

- 63% of the Global 500 respondents identified opportunities for more effective water management, or cost reductions;
- the percentage of Global 500 respondents that reported recycled, reused or wasted water measurements was higher than in 2010;
- the energy sector had the lowest response rate (Global 500).

Along the same lines, the Caisse participated, as it has for some years now, in the *Carbon Disclosure Project*, an organization that brings together 551 investors worldwide and urges companies to answer a questionnaire on greenhouse gas issues, seeking disclosure on related governance measures (staff objectives associated with these issues, level of responsibility for these issues within the company), strategy, reduction targets and ways to achieve them, climate change business risks/opportunities and methodology for calculating different types of emissions.

Investors can use this information to obtain a clearer and more detailed snapshot of climate change risks and implemented initiatives, and then estimate the associated financial impacts.

1.4 Shareholder engagement through dialogue with stakeholders

The Caisse is involved in many groups that work to maintain ongoing dialogue with companies and stakeholders:

- UN Principles for Responsible Investment (PRI)
- Carbon Disclosure Project
- CDP Water Disclosure
- Canadian Coalition for Good Governance
- Pension Investment Association of Canada
- International Corporate Governance Network
- Extractive Industry Transparency Initiative (EITI)
- Social Investment Organization (Canada)
- Hedge Fund Standards Board (HFSB)

In 2011, the Caisse took part in many activities within these groups, including:

- Governance Committee of the Pension Investment Association of Canada;
- PRI task force on integrating these principles into corporate bonds;
- Canadian Advisory Group of the Carbon Disclosure Project;
- Pension fund group of the Social Investment Organization.

THE CAISSE ON THE BOARD OF DIRECTORS OF THE HEDGE FUND STANDARDS BOARD (HSFB)

Integrating ESG criteria into hedge funds is a challenge. Governance and transparency are key criteria in analyzing the choice of fund managers. Integration is achieved primarily through a strict due diligence process incorporating these criteria.

The HSFB is a hedge fund governance standardization agency. It aims to provide a framework of transparency, integrity and good governance in order to maintain a good reputation for the industry and facilitate investor due diligence, in the interests of all market participants.

The Caisse also participates in stakeholder committees set up by companies to fuel discussion about ESG issues and elicit a wide range of perspectives. In 2011, the Caisse was represented on five such corporate committees.

2. INTEGRATING ESG CRITERIA

ESG factors are integrated into investment and risk analyses to varying degrees and in different ways depending on the asset class. This approach allows for some flexibility in implementing ESG factors, based on the investment's reality.

ESG integration is firmly entrenched in the equity market sector, primarily for the Canadian market. Over the years, tools have been developed to enable managers to incorporate ESG criteria into their analyses. Managers closely monitor these factors for any impact on their portfolios. ESG continued to be integrated in 2011, mainly for the U.S. market. Note that ESG factors are primarily used in active management. For indexed management, the Caisse relies on the exercise of its voting rights and, to a lesser extent and in collaboration with other investors, on shareholder engagement.

For private equity, ESG factors are considered in investment analyses and captured in the due diligence process.

In fixed income, ESG factors are integrated into the corporate bonds sector. The Caisse is now implementing an approach similar to the equity markets approach, adjusting it as necessary to the reality of the bond market. To facilitate and complement its efforts to integrate this asset class, the Caisse participates in the PRI task force that analyzes corporate bond-related ESG risks.

SEIGNEURIE DE BEAUPRÉ WIND FARMS

The Caisse provided $25 million to finance phase one of the Seigneurie de Beaupré wind farms in the Québec City region. The wind farms' annual production should cover the power requirements of some 50,000 homes.

Responsible Investment Report

Research is also a key component of ESG integration. The Caisse encourages ESG research, primarily by requesting securities brokers to provide reports incorporating an ESG analysis, subscribing to the services of specialized research firms and attending ESG conferences. Integrating ESG factors into the core analysis of an investment is so important that the Caisse regularly works with universities on this kind of work. In this respect, it established the following partnerships in 2011:

- Implementation of a Sustainable Investment Professional Certification Program at Concordia University.
- Research partnership with Université de Sherbrooke for a study on new financial indicators including ESG factors and a study on how these factors impact companies.

3. EXCLUSIONS

Excluding securities from portfolios is an exceptional measure that the Caisse takes in special circumstances. If circumstances warrant, the Caisse can exclude from its actively managed portfolio securities for which there is a breach of local or international law. An internal committee composed of employees from different sectors, including investment sectors, reviews these issues.

The Caisse excludes from its portfolio companies that manufacture weapons banned by the Ottawa Convention Banning Landmines and the Oslo Convention on Cluster Munitions. These securities could be reinstated, however, if the companies in question stopped manufacturing such weapons.

RESPONSIBLE INVESTMENT COMMITTEE

The Responsible Investment Committee was set up in early 2011. Its role is to review the broad responsible investment themes. It must also review the following matters:

- Key subjects on the Caisse's shareholder engagement
- Exclusion issues

The Responsible Investment Committee, which brings together representatives from the different asset classes the Caisse invests in, met four times in 2011.

DEVELOPMENTS AND TRENDS

The Caisse regularly tracks market developments and trends in responsible investment. It specifically monitors changes in governance practices, both at a regulatory level and in best practices, so as to take them into account in its voting positions. Lastly, the Caisse occasionally participates in consultations held by the Canadian Securities Administrators on the disclosure requirements of public companies, so that shareholders will have comprehensive, transparent information on the main risks and compensation practices of companies.

In 2011, regulatory bodies positioned themselves, notably with respect to disclosure standards relevant to issuers, to raise the quality of information provided to investors on risks, governance issues and compensation practices.

CONCLUSION

As a responsible investor, the Caisse acts in a fiduciary spirit to provide long-term, risk-adjusted, liability-driven returns to its depositors. In keeping with its mission, philosophy and relationships with actively managed companies, an approach of collaboration and ongoing dialogue with these companies is a success factor that is not measurable in the short term. The Caisse considers that this very approach has yielded tangible results ever since its Policy on Responsible Investment was implemented.

Reports of the Board of Directors and Board Committees

Board of Directors' Report

HIGHLIGHTS

01 Adopted the Caisse's strategic orientations based on three pillars: Québec, the world and our people.

02 Approved a strategy to protect the Caisse's overall portfolio to withstand the challenging economic and financial environment.

03 Reviewed succession plans for the members of senior management and for the President and Chief Executive Officer.

BOARD OF DIRECTORS

MANDATE

The Board of Directors is notably mandated to ensure that the Caisse is managed in compliance with the provisions of its incorporating Act and regulations and that the institution takes the necessary steps to fulfill the objectives stated in its mission, namely, is to receive moneys on deposit as provided by law and manage them with a view to achieving optimal return on capital within the framework of depositors' investment policies while at the same time contributing to Québec's economic development.

During the year, the Board reviewed its mandate and that of its Chairman, in conjunction with the Governance and Ethics Committee.

For a full description of the Board of Directors' mandate, please refer to the Governance section of the Caisse's website (www.lacaisse.com).

COMPOSITION

As at December 31, 2011, the Board consisted of 14 members out of a maximum of 15. Board members include the Chairman, the President and Chief Executive Officer, and independent and non-independent directors. The Act respecting the Caisse stipulates that at least two-thirds of the directors, including the Chairman, must be independent.

In 2011, after consulting the Board, the Government of Québec appointed Denys Jean, President and Chief Executive Officer of the Régie des rentes du Québec, as a non-independent member of the Board for a four-year term. Mr. Jean succeeded André Trudeau, who stepped down as a Board member and as President of the Régie des rentes du Québec during the year.

Table 53 (p. 103) provides information regarding director attendance at Board and Committee meetings in 2011.

COMPENSATION OF DIRECTORS

The compensation of the Caisse's directors is determined by Order-in-Council of the Government of Québec. Under this decree, the following compensation was paid to directors, with the exception of the Chairman (see Table 54, p. 103).

Directors are also entitled to be reimbursed for their travel and living expenses, where applicable.

COMPENSATION OF THE CHAIRMAN OF THE BOARD

Annual compensation of the Chairman of the Board is set by the Government of Québec at $195,000. In addition, the Chairman is entitled to be reimbursed for hospitality expenses incurred in the performance of his duties – up to $15,000 per year.

DIRECTOR ATTENDANCE AT BOARD AND COMMITTEE MEETINGS FOR 2011[1]

Member	Board of Directors		Audit Committee	Risk Management Committee		Human Resources Committee		Governance and Ethics Committee
	8 reg.	9 spec.	5 reg.	7 reg.	3 spec.	8 reg.	1 spec.	5 reg.
Elisabetta Bigsby	8	7	–	–	–	8	1	–
Claudette Carbonneau	6	7	–	–	–	–	–	5
Louise Charette	8	9	5	–	–	–	–	5
Jocelyne Dagenais	7	8	–	–	–	–	–	–
Michèle Desjardins	8	9	–	–	–	–	–	5
Pierre Fitzgibbon	7	8	5	7	3	–	–	–
Denys Jean	3/3	2/3	–	–	–	–	–	–
A. Michel Lavigne	8	8	4	7	3	–	–	–
Jean Pierre Ouellet	7	9	–	–	–	5/6[2]	1/1	–
Réal Raymond	8	9	–	7	3	–	–	–
François R. Roy	8	9	5	7	3	–	–	–
Michael Sabia	8	9	–	–	–	–	–	–
Ouma Sananikone	7	8	–	7	3	8	1	–
Robert Tessier	8	9	–	–	–	8	1	5
André Trudeau	5/5	6/6	–	–	–	–	–	–

1. Directors justify their absences from regular meetings of a Committee or the Board to the Caisse's Secretariat. During 2011, directors were not able to attend certain meetings, in part or in whole, due mainly to identified conflicts of interest or family or work commitments.
2. During the year, Mr. Ouellet ceased to be a member of this Committee.

COMPENSATION PAID TO ORDER-IN-COUNCIL INDEPENDENT DIRECTORS[1]

Director	Annual compensation ($)	Compensation as Committee Chair ($)	Attendance fees ($)[2]	Total compensation ($)
Elisabetta Bigsby	17,160	5,363	16,887	39,410
Claudette Carbonneau[3]	17,160	–	12,481	29,641
Louise Charette[4]	17,160	–	19,708	36,868
Michèle Desjardins	17,160	–	14,884	32,044
Pierre Fitzgibbon	17,160	–	20,908	38,068
A. Michel Lavigne[4]	17,160	5,363	23,314	45,837
Jean Pierre Ouellet	17,160	–	14,872	32,032
Réal Raymond	17,160	5,363	18,502	41,025
François R. Roy[4]	17,160	–	23,326	40,486
Ouma Sananikone	17,160	–	24,529	41,689
Total				**377,100**

1. In accordance with the terms of the current Order-in-Council, a 0.75% increase was applied on April 1, 2011 to the annual compensation, to the Committee Chairs' compensation and to the attendance fees.
2. The attendance fee for each special or short Board or Committee meeting, held by conference call, is half of the attendance fee allowed for a regular meeting.
3. For the first half of the year, this director did not receive her compensation directly, as per her instructions to the Caisse.
4. These directors received attendance fees for attending an Audit Committee meeting of the Caisse's real estate subsidiaries.

Board of Directors' Report

ACTIVITY REPORT

Compliance with the Act respecting the Caisse
Throughout the year, the Board ensured that the Caisse's activities complied with the Act and relevant regulations. In addition, the Board approved changes to its Regulation Respecting Internal Management.

Strategic orientations
The Caisse's most recent strategic planning exercise was split into two parts. The first part consists of five strategic priorities approved by the Board in 2009, the implementation of which was completed or initiated in 2009, 2010 and 2011. For a detailed report in this regard, please refer to the Board of Directors' Report in the Caisse's 2010 Annual Report.

The Board was able to assess, as will be elaborated upon later in this report, that the efforts associated with this first part – to strengthen risk management, refocus the portfolio on core businesses and maintain a robust liquidity level – helped the Caisse be in a better position to withstand the high volatility observed in economic and financial markets throughout 2011.

The Board and senior management developed the second part of the strategic planning exercise in the context of this volatility and turbulence. The Board approved strategic orientations in response to major structural changes resulting from the rise of emerging countries and the significant challenges facing depositors. The main aim of these orientations is to ensure that the Caisse is poised to take advantage of the investment opportunities afforded by the turbulence and structural changes.

These strategic orientations are based on three pillars: Québec, the world and our people.

<u>Québec</u>
The Board supported senior management with respect to its three commitments to economic development in Québec, namely investing in the most promising Québec businesses, serving as a bridge between Québec and the rest of the world and developing entrepreneurship. For further information, please see the Contribution to Québec's Economic Development section on page 67.

<u>The world</u>
The Board approved the overall strategy presented by the Caisse's senior management, which is rooted in private investments, equity investments and greater exposure to emerging markets.

Private equity
To make the most of the expertise of its teams and achieve less volatile returns, the Caisse plans to step up its investments in infrastructure, private equity and real estate. Accordingly, the Board approved the consolidation of the Caisse real estate subsidiaries specializing in retail businesses and office buildings under the Ivanhoé Cambridge banner.

Equity market investments
The Board approved the change proposed by senior management according to which the Caisse will gradually migrate a portion of its portfolio toward an absolute investment model, with business performance at the heart of its analysis.

Emerging markets
Given the vitality and growth of the economies in emerging countries, the Caisse needs to develop a strategy to increase the level of its investments in these countries. The Board approved senior management's recommendation of using a mix of internal and external resources and partnerships for its investments in emerging countries that are the most likely to generate the best business opportunities.

<u>Our people</u>
The Caisse teams will require extensive expertise and in-depth knowledge as they work toward achieving the goals stemming from the aforementioned strategic orientations. The Board supported senior management in its commitment to fostering the Caisse's growth and adding significant operations analysis and geopolitical skills to its financial expertise.

Business plan
The Caisse's sectors all delivered a presentation to the Board regarding their annual business plan, integrating goals associated with strategic priorities and day-to-day management, as well as initiatives designed to promote the optimal use of resources. The Board adopted the Caisse's business plan and the annual budget and received regular progress reports on the Caisse's operations from senior management.

The Board was able to effectively oversee the activities of the Caisse and the development of strategic priorities and make a constructive contribution to the process.

Financial results, internal controls and management systems
With the assistance of the Audit Committee, the Board fulfilled its responsibilities with respect to financial results and internal controls, in particular by reviewing quarterly financial statements, approving the Annual Combined Financial Statements, evaluating the integrity of the controls applied to various data used to prepare annual and interim financial statements and related notes and monitoring internal audits.

Moreover, the Board received reports analyzing the returns of the Caisse's various investment sectors. It approved the press releases announcing the Caisse's annual and interim financial results, as well as its Annual Report. It also approved changes proposed to the Internal Control Policy in order to improve the effectiveness of the Caisse's oversight operations.

See page 107 of the Report of the Audit Committee for more information on the responsibilities of this committee and the Board.

Risk management
The Board, with the assistance of the Risk Management Committee, ensured that the Caisse's risk management tools were enhanced throughout 2011, specifically as regards credit risk measurement and the stress tests used to simulate adverse market conditions, such as the European sovereign debt crisis, the political upheaval in the Middle East and North Africa, the aftermath of the natural disasters in Japan and the financial situation in the United States.

Accordingly, the Board approved an underweight strategy for the Equity portfolios given the increased market risk, particularly as it related to the sovereign debt crisis in Europe. The Board also authorized the review of several risk oversight measures, including certain additions to the Integrated Risk Management Policy and a new framework focusing on issuers' credit risk. In addition, the Board received a report on the oversight of all financial derivative instruments held in the Caisse's portfolios. It also tracked major investments with a significant impact on portfolio risk levels and concentrations.

For more details on the activities of the Board and the Risk Management Committee, see the Report of the Risk Management Committee on page 126.

Senior management supervision
The Board, assisted by the Human Resources Committee, adopted the detailed objectives of the President and Chief Executive Officer for 2011. The Board also reviewed the performance of the President and Chief Executive Officer based on the objectives set at the beginning of the year and concluded that his contribution had once again largely exceeded these targets.

The Board examined the President and Chief Executive Officer's evaluation of senior executives' performance, as well as the succession plans for the President and Chief Executive Officer and other senior management positions. On the Human Resources Committee's recommendation, the Board approved the 2011 salary conditions and the level of incentive compensation to be paid to members of senior management. It also authorized the appointment and compensation of two new Executive Committee members.

Maarika Paul, Executive Vice-President and Chief Financial Officer, was put in charge of monitoring financial performance, overseeing treasury operations, measuring and analyzing returns, preparing accounting and financial information, controlling operating expenses, applying best practices in financial governance and managing business services.

Pierre Miron, Executive Vice-President, Operations and Information Technology, was entrusted with the responsibility of continuing the repositioning work initiated two years ago by the Operations and Information Technology teams. He ensures that the group's activities are consolidated to enhance the efficiency of the Caisse's operational activities and simplify its technological environment.

Moreover, to contribute to achieving the objectives associated with the strategic priorities for the "Our people" pillar, the Board, via its Human Resources Committee, lent its support to senior management in the implementation of programs aimed at strengthening the leadership skills of team leaders, developing employees' strengths and creating a work environment that stimulates productivity and promotes talent retention.

See page 112 of the Report of the Human Resources Committee for more information on the responsibilities of this committee and the Board.

Board of Directors' Report

Corporate governance
The Board, assisted by the Governance and Ethics Committee, ensured that high standards in terms of governance practices were upheld. This included holding discussion sessions with the President and Chief Executive Officer without the presence of other senior management members as well as in camera discussion sessions. The Board also, by way of the Governance and Ethics Committee, reviewed the Director Code of Ethics and Professional Conduct and the Caisse Officer and Employee Code of Ethics and Professional Conduct, examined statements of interest submitted by each director and approved an amendment to the directive on the review of transactions involving securities of companies that have ties to a Caisse director.

The relationship between the Board and senior management, which is intended to be constructive and rooted in trust, was also enhanced through senior management presentations at meetings held the day before the Board convened.

See page 110 of the Report of the Governance and Ethics Committee for more information on the responsibilities of this Committee and the Board.

Report of the Audit Committee

HIGHLIGHTS

01 Reviewed the financial statement preparation process.

02 Reviewed the Internal Control Policy and the financial certification process.

03 Monitored the implementation of Internal Audit recommendations.

AUDIT COMMITTEE

MANDATE

The Audit Committee plays an essential role in ensuring good financial governance at the Caisse. It oversees the compliance of the organization's financial statements with respect to its financial position and ensures that adequate and effective internal control mechanisms and a risk management process are in place.

During the year, the Audit Committee reviewed its mandate and that of its Chair, in conjunction with the Governance and Ethics Committee.

For a full description of the Audit Committee's mandate, please refer to the Governance section of the Caisse's website (www.lacaisse.com).

COMPOSITION (as at December 31, 2011)

Four independent members, including professionals with accounting or financial expertise, possessing the necessary experience and knowledge to read and understand financial statements and properly fulfill their role. The Chairman of the Board attends Audit Committee meetings.

- Chair: A. Michel Lavigne (guest member at Risk Management Committee meetings)
- Members: Louise Charette, Pierre Fitzgibbon and François R. Roy

ACTIVITY REPORT

Number of meetings in 2011: 5

The Committee provided a verbal and written report on its activities to the Board of Directors after each meeting. During Committee meetings, members also met without the presence of senior management. The following report, which was approved by the members of the Committee, describes the main issues that were the subject of discussion or decisions during the year.

Report of the Audit Committee

Financial reporting
During the year, the Committee welcomed Maarika Paul, the new Chief Financial Officer, with whom a close working relationship quickly developed.

In 2011, the Committee fulfilled its responsibilities with respect to financial reporting as follows:

- Reviewed the 2010 Combined Financial Statements with the Auditor General of Québec and the co-auditors, Ernst & Young, and reviewed several items, including:
  - the financial statement preparation process;
  - the valuation of over-the-counter liquid investments, illiquid investments and ABTNs;
  - the validation of the notional amount of derivative instruments by an external firm;
  - the audit, by an external firm, of returns to ensure their calculation and presentation complies with industry standards.
- Verified that an independent valuation of the fair value of over-the-counter liquid investments, private equity investments, ABTNs and the Caisse's real estate assets has been carried out, including:
  - the independent review of valuation data for certain private equity investment files and the valuation of the fair market value of certain other private equity investment files by a recognized firm;
  - the independent external valuation of the fair value of certain liquid securities, real estate debt securities and corporate debt portfolio securities.
- Reviewed the report on the financial certification process that enables the President and Chief Executive Officer and the Acting Chief Financial Officer to certify publicly that disclosure controls and procedures and internal financial reporting controls are adequate and effective.
- Submitted to the Board recommended changes to the Information Disclosure Policy and the Internal Control Policy.
- Had members of the Caisse's Audit Committee attend meetings of the real estate subsidiaries' audit committees and reviewed the annual balance sheets of these committees.
- Recommended the adoption of the Annual Financial Statements to the Board.
- Received the co-auditors' report submitted to the Caisse's senior management following their audit.
- Reviewed press releases pertaining to the Caisse's financial results.
- Reviewed quarterly financial statements, operating expense budget monitoring reports and year-end budget estimates.
- Discussed with the co-auditors their plan for auditing the Caisse's financial results.
- Discussed with the co-auditors their internal quality control procedures.
- Monitored the External Auditor Independence Policy and submitted a recommendation to the Board regarding Ernst & Young's audit fees.
- Reviewed and monitored the decisions of Canadian and international authorities on the application of international financial reporting standards, and monitored the preparatory work for implementing these standards.
- Held regular discussions with Finance personnel without the presence of senior management.
- Held regular meetings with the co-auditors without the presence of senior management to discuss various aspects of their mandate.

Internal Audit
Reporting to the Audit Committee, Internal Audit helps the Caisse achieve its objectives by providing an independent, objective evaluation of risk management, control and corporate governance processes, and making proposals to enhance their effectiveness.

Accordingly, in 2011, the Committee carried out the following activities with the Vice-President, Internal Audit:

- Reviewed and adopted the 2011 Internal Audit Charter and Internal Audit Plan.
- Reviewed the 2011 business plan of the Vice-President, Internal Audit.
- Reviewed Internal Audit's progress reports, in relation to the internal audit plan and specifically addressing internal control mechanisms, risk management processes and the optimal use of resources.
- Monitored the implementation of Internal Audit's recommendations by the Caisse's senior management.
- Reviewed status reports on the working relationship between the Caisse's Vice-President, Internal Audit, and the internal audit teams of the real estate subsidiaries.
- Discussed the Caisse's continuous audit program.
- Evaluated the performance of the Vice-President, Internal Audit.
- Ensured that the Internal Audit team can act independently from the Caisse's senior management.
- Held regular discussions with the Vice-President, Internal Audit, without the presence of senior management.

Internal controls and plan for the optimal use of resources

The Committee reviewed many aspects of internal controls and the optimal use of resources during the year. This included the following activities:

- Discussed senior management's overall evaluation and the internal audit of the design and effectiveness of the general control environment.
- Reviewed Internal Audit's findings on processes and controls related to the general control environment and information technology.
- Reviewed quarterly reports on compliance with investment limits as specified in the Act respecting the Caisse.
- Monitored the investments made under the last paragraph in Section 37.1 of the Act respecting the Caisse.
- Reviewed the delegation of authority and submitted a number of recommended changes to the Board.
- Monitored and analyzed the expected outcomes of activities implemented to promote the optimal use of resources, namely, initiatives focusing on efficiency, effectiveness and resource conservation.
- Held discussions about integrating initiatives aimed at promoting the optimal use of resources within the strategic planning process and establishing business plans for the various sectors in order to align these initiatives with the Caisse's strategic orientations.

Risk management

The Board of Directors established the Risk Management Committee to support the Audit Committee in exercising its responsibility to implement a risk management process. The Audit Committee therefore carried out the following activities to monitor all risk management efforts:

- It received copies of the minutes of Risk Management Committee meetings.
- It received a copy of the certificates of compliance with depositors' investment policies and the investment policies of the Caisse's specialized portfolios.
- The Chair of the Audit Committee attended Risk Management Committee meetings.

USE OF EXTERNAL EXPERTS

The Audit Committee did not use the services of an external expert in 2011. However, it supported senior management when it used external firms for an independent review of the fair value of private equity, certain liquid securities, real estate assets, mortgage-backed securities and ABTNs.

Report of the Governance and Ethics Committee

HIGHLIGHTS

01 Approved a continuing education program for Caisse directors to allow them to discuss issues related to the performance of their role.

02 Examined the report on the exercise of the Caisse's voting rights with respect to its portfolio companies and discussed the underlying principles.

03 Revised the codes of ethics and professional conduct in effect at the Caisse.

GOVERNANCE AND ETHICS COMMITTEE

MANDATE

The Governance and Ethics Committee ensures that the Caisse adheres to the highest governance and ethics standards. The Committee's responsibilities include reviewing the structure, composition, performance and operations of the Board and its committees.

The Committee reviewed its mandate and that of its Chair in 2011.

For a full description of the Governance and Ethics Committee's mandate, please refer to the Governance section of the Caisse's website (www.lacaisse.com).

COMPOSITION (as at December 31, 2011)

Four independent members:

- Chair: Robert Tessier
- Members: Claudette Carbonneau, Louise Charette and Michèle Desjardins

ACTIVITY REPORT

Number of meetings in 2011: 5

The Committee provided a verbal and written report on its activities to the Board of Directors after each meeting. During Committee meetings, members also met without the presence of senior management.

The following report, which was approved by the members of the Committee, describes the main issues that were the subject of discussion or decisions during the year.

The Committee ensured high-level adherence to governance practices in 2011. To this end, it carried out the following activities.

The Board and its committees

- Reviewed the responsibilities outlined in the mandates of the Board, its committees and their chairs.
- Reviewed the responsibilities delegated to the President and Chief Executive Officer, as outlined in his mandate.
- Ensured that key individuals either within the Caisse's management or externally are available to explain various items on the agenda of Board meetings, and that there is enough time for a full discussion.
- Ensured that the Board has all the information and time it needs to analyze issues of importance to the Caisse.
- Verified throughout the year that discussion sessions are held without the presence of senior management and ensured that there is adequate time for full discussion by the directors.
- Discussed and recommended to the Board a continuing education program for Caisse directors, including presentations at Board meetings as well as outside this formal framework, in order to allow directors to discuss issues related to the performance of their role.
- Received and analyzed a report on the governance of state-owned enterprises.

Composition of the Board and committees

The Committee reviews the composition of the committees and the Board annually to ensure that members have the experience and skills required to contribute fully to the work of these bodies. To this end:

- The Committee reviewed, in collaboration with the Human Resources Committee, the expertise and experience profile of independent directors.
- The Chair of the Committee analyzed the Board's composition, each director's term of office and the Board's skills and expertise as a whole.
- The Committee recommended the composition and chairmanship of the committees to the Board.
- The Committee recommended the appointment of a non-independent director to the Board.

Evaluation of committee and Board operations

- Reviewed the process for evaluating the performance of the Board, its Chair and its committees, including the self-evaluation of directors.
- Analyzed the Board and committee evaluation results and recommended improvements to certain processes, as required.

Code of Ethics and Professional Conduct

The Committee reviewed the Code of Ethics and Professional Conduct in effect. To this end, the Committee:

- Reviewed the Director Code of Ethics and Professional Conduct, interpreted Code provisions as required for its implementation and presented a report to the Board.
- Received the report on the implementation of the Caisse Officer and Employee Code of Ethics and Professional Conduct and reviewed this code.
- Examined, on behalf of the Board, statements of interest submitted by the directors in accordance with the provisions in effect and transmitted these statements to the authorities designated by the Act respecting the Caisse.
- Submitted to the Board recommended changes to the directive on the review of transactions involving securities of companies that have ties to a Caisse director and followed up on the implementation of this directive.

Caisse

- Discussed directorship applications for the Caisse's real estate subsidiaries.
- Analyzed and discussed the process for appointing directors to the boards of portfolio companies.
- Submitted to the Board recommended changes to the Regulation Respecting Internal Management in order to clarify conditions related to employees' engagement in political activities.
- Received the report on donations and sponsorships granted during the year and submitted to the Board recommended changes to the policy on donations and sponsorships.

Policy on Responsible Investment

The Caisse has adopted a Policy on Responsible Investment. In this regard, the Committee:

- Discussed the implementation of the Policy on Responsible Investment.
- Examined the report on the exercise of the Caisse's voting rights with respect to its portfolio companies and discussed the underlying principles.

USE OF EXTERNAL EXPERTS

The Governance and Ethics Committee did not use the services of an external expert in 2011.

Report of the Human Resources Committee

HIGHLIGHTS

01 Reviewed integrated talent management strategies.

02 Validated the alignment of the Compensation Policy with the Caisse's strategic objectives.

03 Analyzed different management indicators.

HUMAN RESOURCES COMMITTEE

MANDATE

The mandate of the Human Resources Committee is to review human resource management strategies and, in particular, performance evaluation, succession planning, executive compensation and the Caisse's general human resource practices.

In 2011, the Committee reviewed its mandate and that of its Chair, working with the Governance and Ethics Committee.

For a full description of the mandate of the Human Resources Committee, please consult the Governance section of the Caisse's website (www.lacaisse.com).

COMPOSITION (as at December 31, 2011)

The Committee is composed of three independent members:

- Chair: Elisabetta Bigsby
- Members: Ouma Sananikone and Robert Tessier

ACTIVITY REPORT

Number of meetings in 2011: 9

During the year, the Committee paid special attention to integrated talent management, focusing on:

- Succession planning
- Talent management programs and measures of success
- The incentive compensation policy

After each meeting, the Committee provided a verbal and written report on its activities to the Board. In addition, at each meeting, Committee members met without the presence of members of management. This report, approved by Committee members, reports highlights of their work.

Executive

The Committee considered Mr. Sabia's 2011 objectives as President and Chief Executive Officer and recommended that the Board of Directors approve them. It also reviewed Mr. Sabia's proposed appointments to the Caisse's Executive Committee.

In addition, the Committee reviewed the following items, recommending them to the Board for approval:

- Performance evaluations of members of the Executive Commitee and determination of their total compensation (base salary, incentive compensation, pension plan and benefits);
- Total compensation conditions for the President and Chief Executive Officer;
- Succession plan for executive positions and the position of President and Chief Executive Officer.

Integrated talent management strategies and key policies

In 2011, the Committee discussed several integrated talent management strategies and key policies designed to provide the Caisse with truly integrated talent management. To this end, the Committee:

- Established certain organizational development priorities;
- Analyzed different management indicators, including indicators on operational risk management related to human resource management;
- Reviewed professional and leadership development programs for Caisse employees;
- Reviewed the performance management strategy;
- Reviewed the 360° evaluation project for members of the Executive Commitee and the President and Chief Executive Officer;
- Reviewed and discussed objectives to ensure adequate representation of women in investment positions and as part of succession plans;
- Reviewed and discussed the proposed approach regarding employee engagement;
- Reviewed the *Mieux faire et être* initiatives implemented throughout the year;
- Reviewed the employee direct compensation structure for 2012 and recommended it to the Board of Directors for approval.

Independent members on the Board of Director

The Committee reviewed the expertise and experience profile of independent members of the Board of Directors in collaboration with the Governance and Ethics Committee.

Use of external experts

The Board of Directors and its committees may, in exercising their functions, use external experts. In establishing the incentive compensation program and monitoring its implementation, the Committee and the Board used the services of Hugessen Consulting, an independent consulting firm recognized for its expertise in the compensation of personnel working in the pension fund sector. The Committee considers Hugessen's recommendations, but makes its own decisions that may be based on information other than that contained in Hugessen's recommendations.

COMPENSATION POLICY

Committee's work on compensation

During 2011, the Committee–supported by its advisor Hugessen Consulting–ensured that the compensation policy adopted in 2010 would meet its strategic objectives of paying for long-term performance, offering competitive compensation and linking the interests of executives and depositors. The Committee reviewed how the Caisse's compensation policy had been applied; it analyzed the proposed incentive compensation and proposals relative to the implementation of the co-investment program and ensured that these proposals were aligned with the compensation policy and market practices.

Accordingly, the Committee analyzed and recommended the following to the Board for approval:

- Certain adjustments required to be made to the incentive compensation program for years subsequent to 2010;
- The amount of incentive compensation to be paid based on the incentive compensation program;
- The conditions of the deferred and co-invested incentive compensation program.

Moreover, the Committee received an update on compensation market trends with regard to salary reviews. It also discussed salary conditions for the Caisse's employees in 2012, recommending them to the Board for approval.

Regulation Respecting Internal Management

The Caisse's compensation policy is governed by Appendix A of the Regulation Respecting Internal Management, revised by government decree in 1996. This policy:

- Defines maximum levels of total employee compensation and reference markets;
- Indicates that the data reflecting the reference market profile must be compiled by a recognized independent firm through an annual survey and must be administered and analyzed according to a generally accepted methodology and rules in this field;
- Stipulates that the Caisse's payroll must not exceed 100% of the salary-scale midpoint.

Report of the Human Resources Committee

Reference markets and compensation level positioning[1]

For the President and Chief Executive Officer position, the reference market consists of a sample of eight large Canadian pension funds as listed in Table 61 (p. 121). For this position, total compensation must be between the median and third quartile (75th percentile) of the reference market, depending on whether the Caisse's performance is average or superior.

For investment duties, the Canadian institutional investment market serves as the reference. This must include a representative sample, including institutions, insurance companies, trust companies, pension funds, investment advisors, brokerage firms and fund managers or their counterparts in similar industries. The current sample comprises the 57 organizations listed in Table 59 (p. 120). For these positions, total compensation must be below the top 10 percent (90th percentile) of the reference market.

For non-investment duties, the Québec market serves as the reference, which must include public sector jobs. It therefore contains a representative sample of large public- and private-sector Québec firms and private financial companies. The current sample comprises the 48 organizations listed in Table 60 (p. 121). For these positions, total compensation must be at the third quartile (75th percentile) of the reference market.

In 2011, the Caisse retained the services of Towers Watson for benchmarking its reference markets. The company selection criteria for the reference markets include: size, industry, companies that recruit talent similar to the profiles sought by the Caisse, organizations offering innovative and diverse investment products, firms recognized for best practices in human resources, companies with performance-driven cultures and businesses participating in the Towers Watson database.

Strategic objectives of the compensation policy

The Caisse must rely on highly skilled employees who enable the institution to fulfill its mission, which is to receive moneys on deposit as provided by law and manage them with a view to achieving optimal return on capital within the framework of depositors' investment policies while at the same time contributing to Québec's economic development.

The total compensation policy therefore pursues the following three objectives:

1. **Pay for performance:** Incentive compensation should be proportional to the returns delivered to depositors. This goal has four key components:
   - **Long-term focus:** recognize consistent performance over many years.
   - **Risk-return balance:** encourage prudent risk-taking to make it easier to produce sustainable, long-term returns for depositors, taking into account their risk tolerance.
   - **Overall evaluation:** strike a balance between individual, portfolio and Caisse performance.
   - **Emphasis on the Caisse's overall perspective:** increased weighting of employees' contributions to supporting the Caisse's strategic priorities and overall performance, including giving greater weight to leadership and desired behaviours.
2. **Offer competitive compensation:** Attract, motivate and retain employees with experience and expertise that allow the Caisse to attain its strategic objectives, within the guidelines contained in the Regulation Respecting Internal Management presented in the previous section.
3. **Link the interests of executives and depositors:** Ensure that their individual and team efforts are oriented toward the Caisse's long-term, sustainable success.

   This objective is supported by an incentive compensation program, introduced in 2010 and discussed on page 117 of this annual report, which recognizes consistent performance over a four-year period with incentive compensation and deferral of a portion of this incentive compensation over a three-year period. This mechanism serves the objective of linking the interests of executives and depositors by having these amounts vary with the absolute return generated for depositors.

Finally, the Caisse's incentive compensation policies comply with the Principles for Sound Compensation Practices issued by the Financial Stability Forum (FSF) and endorsed by G20 nations: effective compensation governance; an alignment between compensation and long-term, prudent risk-taking; and regular review of compensation practices.

1. For compensation purposes, the first quartile ranges from the 1st to 25th percentile, the second quartile from the 26th to 50th percentile, the third quartile from the 51st to the 75th percentile and the fourth quartile from the 76th to 100th percentile.

Components of total compensation

For the Caisse's employees, total compensation is based on four components:

1. Base salary
2. Incentive compensation
3. Pension plan
4. Benefits

Base salary

The Regulation Respecting Internal Management states that the average base salary must not exceed the salary-scale midpoint. Within these parameters, the annual base salaries are set according to prevailing reference market salary conditions. Furthermore, the base salaries of certain employees may have been adjusted during the year to reflect changes in responsibilities or due to exceptional circumstances. Each year, the Human Resources Committee submits the payroll budget to the Board for approval.

For 2011, the Board of Directors approved the following recommendations made by the Caisse's management:

- To maintain salary scales for all positions;
- To freeze salaries of members of the executive;
- To pay a 1.6% merit increase in the payroll budget, which is below the median of the market increase forecasts.

Incentive compensation

In the investment community, incentive compensation is an essential part of the compensation package for employees because it aligns financial incentives with clients' performance objectives.

Incentive compensation at the Caisse serves to recognize performance, attainment of objectives and the contribution to strategic achievements. Incentive compensation is an essential part of total compensation, so it directly influences the total compensation level and its position relative to the reference market.

Components of the performance incentive compensation

Performance incentives are never guaranteed; they depend on evaluations of performance criteria as established by the incentive compensation program. Accordingly, employees receive performance incentives based on the three factors outlined in Figure 55.

2010-2012 transition period

Although the Regulation Respecting Internal Management allows for superior performance to be recognized by total compensation up to the top 10 percent (90th percentile) or the third quartile (75th percentile), depending on the position, the Caisse's incentive compensation program limits the amount of incentive compensation during a three-year transition period (2010 to 2012).

Given that this is the second year of the new incentive compensation program, which is structured to cover four years of returns, the Caisse introduced limits on the payments possible under its incentive compensation program, which came into effect in 2010. The purpose of this interim measure is to ensure that the first objective of the program, which is to reward sustained performance over several years, is respected.

PERFORMANCE INCENTIVE FACTORS

RESULT OF THE LEVEL OF ATTAINMENT OF INDIVIDUAL OBJECTIVES	⟶	Individual contribution
BASED ON THE LEVEL OF ATTAINMENT OF THE ORGANIZATION'S OBJECTIVES OR THE SPECIALIZED PORTFOLIO'S RETURN OF EACH SECTOR	⟶	Portfolio return or business plan achievement
BASED ON THE LEVEL OF ATTAINMENT OF THE CAISSE'S RETURN OBJECTIVES	⟶	Caisse overall return

Report of the Human Resources Committee

2011 achievements

In 2011, the Caisse generated a return of 4.0%, representing $5.7 billion in net investment results:

- This result places the Caisse in the first quartile according to the RBC Dexia Investor Services study – Plans over $1 billion.
- Thirteen of the seventeen portfolios posted positive results.
- The Caisse's five strategic priorities were successfully implemented.

For the three-year period ended December 31, 2011, the Caisse's annualized return was 9.1%. Since December 31, 2008, depositors' net assets grew $38.9 billion. This growth is attributable to $35.2 billion in net investment results, in addition to $3.6 billion in net deposits.

Furthermore, the Caisse also achieved other key strategic objectives in its business plan, including:

- Development of strategic priorities to deliver the required performance in a global economic and financial environment undergoing profound structural changes. These strategic priorities were developed in 2011. Their implementation, which began in 2011, will continue through 2012 and 2013.
- Strong growth in the Caisse's assets in Québec through $2.1 billion in new investments and commitments in over 100 businesses. The Caisse's assets in Québec grew $4.7 billion, reaching $41.2 billion as at December 31, 2011. The Caisse undertook several initiatives to strengthen its leadership position in Québec, in terms of both its investments and its business development and visibility (see the Contribution to Québec's Economic Development section, p. 67).
- Decrease in the expenses-to-average net assets ratio, from 19.4 cents per $100 in 2010 to 18.0 cents per $100 in 2011. This makes the Caisse one of the leaders in its category of institutional fund managers (see Figure 68, p. 140), despite a slight increase in total operating expenses. The increase in total operating expenses including external management fees, which grew from $269 million in 2010 to $278 million in 2011, is mainly due to the recruitment of personnel needed in the Information Technology and Research sectors.
- Balance maintained between performance and risk, including:
  - Lower absolute risk, in a turbulent market environment, which fell from 31.4% at the end of 2010 to 29.9% at the end of 2011, and lower active market risk, which declined from 4.2% to 3.7% over the same period.
  - Healthy liquidity level maintained, allowing the Caisse to honour potential commitments, even in the event of a major market correction.
  - The overall leverage ratio (liabilities over total assets) was maintained at a low level of 17% as at December 31, 2011.
- The ratings agencies (Standard & Poors, Moody's and DBRS) reconfirmed the Caisse's investment grade credit rating with a stable outlook, given its strong financial position.
- Merger and restructuring of the real estate subsidiaries and implementation of a new strategy based on our operational expertise and on assets in countries where the Caisse has a strategic advantage.
- Improved capacity to conduct research and analyze economic and financial trends. The recruitment of world-class experts improved the Caisse's understanding of the macroeconomic and financial environment and changes in the global competitive environment, as well as helped the Caisse to better grasp the issues surrounding the European crisis and its potential impacts on the Caisse's assets.

TOTAL COMPENSATION RANKING BY POSITION TYPE

Position type	Maximum total compensation under the Regulation[1]	Total compensation paid in 2011 relative to reference markets' target compensation[2]
Investment duties	90th percentile	Between 54th and 60th percentile
Non-investment duties	75th percentile	

1. Maximum total compensation refers to percentile positions found in Schedule A of the Regulation Respecting Internal Management, revised by government decree in 1996.
2. Despite above-target performance over two years (2010 and 2011), total compensation paid in 2011 is close to the median due to measures applicable to the transition period described on page 115 of this annual report.

2011 performance incentives

Due to the application of incentive payment limits in 2011, the total compensation of the Caisse's employees was close to the median in 2011, even if the performance reaches the first quartile. More specifically, a study by Towers Watson indicated that the total employee compensation ranges from the 54th to the 60th percentiles in reference markets for a target performance level (see Table 56).

The opinion presented by Hugessen Consulting to the Caisse's Board of Directors stated:

"We reviewed the Caisse's returns and benchmarch indexes for 2011, as well as the factors that contributed to the Caisse's return, and we are satisfied. We can confirm, among other things, that the value-added calculations, the 2011 return multiples, the 2010-2011 average return multiples and the 2011 incentive compensation multiples are consistent with the Caisse's incentive compensation program. In our opinion, the total amount of incentive compensation awarded under the program in 2011 is reasonable based on market conditions, considering the Caisse's performance in 2010 and 2011."

Deferred and co-invested performance incentives

To strike a balance between short- and long-term incentive compensation based on financial sector practices in this area, the program makes it mandatory to defer a minimum of 40% of total incentive compensation for members of the Executive Commitee and, during the transition period that ends in 2012, 25% of that for managers and high-level professionals, into a co-investment portfolio.

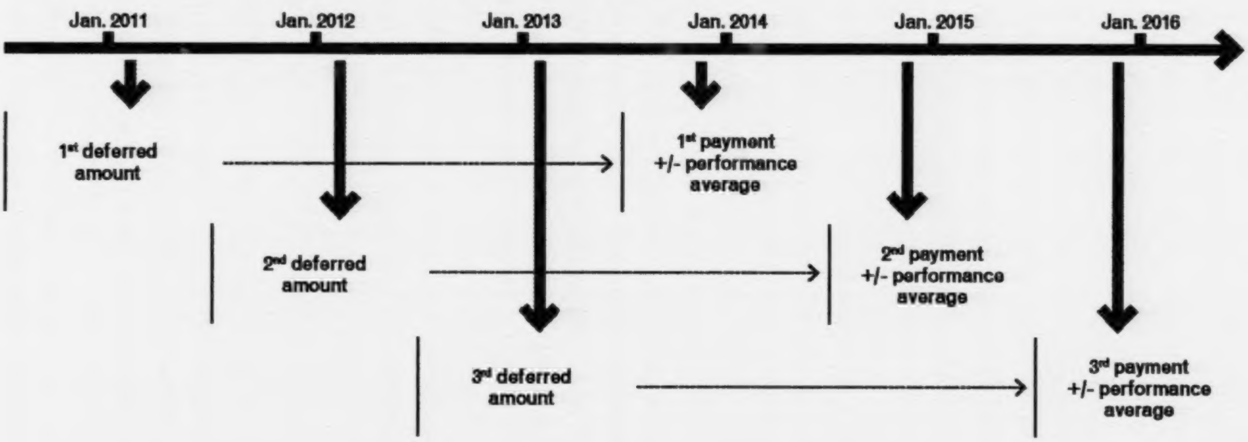
Also in 2011, the Caisse offered managers and high-level professionals the option of deferring and co-investing an additional portion of the 2011 incentive compensation payable in 2012 in a co-investment portfolio. This voluntary participation grew the amounts deferred and co-invested by an average of 30%.

The purpose of the co-investment portfolio is to better align the long-term interests of employees with the most influence on the Caisse's organizational and financial performance with those of depositors. The value of the deferred and co-invested performance incentive amounts will vary – upward or downward – with the Caisse's overall mean absolute returns during the incentive deferral period.

At the end of each three-year period, the deferred amount, plus or minus the performance credit for the period, will be paid to each participant as a deferred incentive payment with restrictions. Figure 57 illustrates this mechanism.

Executives have three years to contribute at least the equivalent of their base salary into the co-investment account.

DEFERRED AND CO-INVESTED PERFORMANCE INCENTIVES



Report of the Human Resources Committee

Pension plan

All employees participate and contribute to one of two defined benefit pension plans – either the Government and Public Employees Retirement Plan (RREGOP) or the Pension Plan of Management Personnel (PPMP), depending on their position. In addition, executives participate in the Supplemental Pension Plan for Designated Officers (RSRCD). Under both plans, these executives are entitled to receive, after the normal age of retirement, a total annual pension equal to 2% of their eligible earnings for each year or fractional year of plan participation, taking into account the annual tax limits imposed by the Canada Revenue Agency for each year they were not RSRCD members.

Certain executives will be granted additional years of service to RSRCD, depending on the particular circumstances of their hiring or promotion. No changes were made to the plan in 2011.

Benefits

Employees enjoy a range of competitive benefits, including group insurance (such as medical, dental and life insurance). Moreover, executives enjoy fringe benefits that mainly cover the costs associated with car allowances. The Caisse also requires its officers to undergo yearly health checkups. No changes were made to benefit plans in 2011.

President and CEO's performance and total compensation review

Performance review

In early 2011, the Committee recommended a series of non-financial objectives to the Board for review and approval. These approximately 20 corporate objectives had been proposed by the President and Chief Executive Officer with the goal of attaining targets related to the Caisse's strategy and business plan.

The Human Resources Committee performed an evaluation of the following: the strengthening of the Caisse's activities in Québec; its strategies and its investment tools; relations with depositors; decision-making processes; governance of the real estate subsidiaries; talent management; and the positioning of the Caisse.

In addition, the Committee received a summary of an evaluation made by the executives.

At the end of the process, a report was submitted to the Board of Directors, which was highly satisfied with the performance of the President and Chief Executive Officer and congratulated him on the financial results obtained and the progress made toward achieving the strategic vision and carrying out the business plan.

PERFORMANCE INCENTIVE FACTORS OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

CAISSE OVERALL RETURN	→	Based on the level of attainment of the Caisse's return objectives
ACHIEVEMENT OF THE ORGANIZATION'S OBJECTIVES	→	Based on the level of attainment of the organization's objectives
INDIVIDUAL CONTRIBUTION	→	Result of the level of attainment of individual objectives

Total compensation review

Compensation and other employment conditions for the President and Chief Executive Officer are based on parameters set by the government in consultation with the Board of Directors.

In accordance with his wishes, Mr. Sabia has received no salary increase and has not been granted any incentive compensation since he took office in 2009. This is why his base salary was unchanged at $500,000 in 2011.

The President and Chief Executive Officer's annual incentive compensation was determined on the basis of the three components presented in Figure 58.

This year, the component related to overall performance is the Caisse's two-year return (2010 and 2011). In 2010, the Caisse's overall portfolio posted net investment results of $17.7 billion and an absolute return of 13.6%. The Caisse's overall return therefore outperformed that of its benchmark portfolio of $5.1 billion. In 2011, net investment results totaled $5.7 billion and the absolute return was 4.0%, $366 million below the benchmark portfolio. For 2010 and 2011, the annualized two-year return stood at 8.7%, $4.7 billion above the benchmark portfolio.

The Committee and the Board of Directors qualified Mr. Sabia's performance as superior in his achievement of corporate and individual objectives set at the beginning of the year.

Like all other executives subject to the incentive compensation program, the President and Chief Executive Officer is required to defer a minimum of 40% of the incentive compensation granted to him in a co-investment portfolio. To achieve the annual objectives, the Board of Directors granted Mr. Sabia $400,000 in incentive compensation and Mr. Sabia elected to defer an amount of $800,000 to the co-investment portfolio. In 2014, Mr. Sabia will be eligible to receive deferred and co-invested incentive compensation, increased or decreased by the Caisse's average absolute return.

The other employment conditions to which Mr. Sabia is entitled are aligned with the Caisse's policies and comply with parameters set out in the Regulation Respecting Internal Management. He received $40,000 in annual fringe benefits and participated in the Caisse's Employee Group Insurance Plan.

For the duration of his mandate, Mr. Sabia waived participation in any pension plan. He also waived severance pay, whatever the cause. However, given mandatory participation in the Basic Pension Plan for Management under the provisions of the Pension Plan of Management Personnel (based on CARRA rules), Mr. Sabia must participate despite his waiver. In 2011, contributions to the mandatory basic plan represented an annual cost of $14,726 to the Caisse.

In 2011, the total compensation of the President and Chief Executive Officer, including deferred and co-invested incentive compensation, for a superior performance, was 59% lower than the maximum direct compensation potential of the reference market, made up of his peers at the eight pension funds. For a superior performance, a gap of approximately $2.5 million exists between the total compensation of the President and Chief Executive Officer and the maximum direct compensation potential provided by policies of companies included in the reference market.

Compensation of the President and CEO and the five most highly compensated executives for 2009-2011

The Caisse's Board of Directors recognizes the importance of qualified leadership, and firmly believes that its endorsed policies and programs:

- Provide competitive compensation in a fiercely competitive market for talent, where the Caisse competes in a global market to generate the expected returns;
- Achieve the strategic objectives that help fulfill the Caisse's mission.

In accordance with the Act respecting the Caisse de dépôt et placement du Québec, the Caisse discloses below, for itself and its wholly owned subsidiaries, the compensation of the President and Chief Executive Officer and that of the five most highly compensated executives under its direct authority (see Table 62, p. 122).

Report of the Human Resources Committee

REFERENCE MARKET – INVESTMENT DUTIES

- Addenda Capital
- Air Canada
- Alberta Investment Management Corporation
- ATB Financial
- BIMCOR
- British Columbia Investment Management Corporation
- Canada Deposit Insurance Corporation
- Canada Post Corporation
- Canadian Broadcasting Corporation
- City of Edmonton
- CN Investment Division
- Connor, Clark & Lunn Financial Group
- Cordiant Capital
- CPP Investment Board
- Credit Union Central of Manitoba
- Desjardins Group
- Fiera Sceptre
- Greystone Managed Investments Inc.
- Halifax Regional Municipality Pension Plan
- Healthcare of Ontario Pension Plan (HOOPP)
- HEB Manitoba
- HSBC Bank Canada
- Hydro-Québec
- Industrial Alliance Insurance and Financial Services
- Insurance Corporation of British Columbia
- Intact Investment Management
- Jones Collombin Investment Counsel
- Leith Wheeler Investment Counsel
- Lucie and André Chagnon Foundation
- Matrix Asset Management
- Mclean & Partners
- MD Physician Services
- Montreal Police Benevolent & Pension Association
- Montrusco Bolton Investments
- National Bank of Canada
- New Brunswick Investment Management Corporation
- Nexus Investment Management
- Ontario Municipal Employees Retirement System (OMERS)
- Ontario Pension Board
- Ontario Teachers' Pension Plan (OTPP)
- OPSEU Pension Trust
- Optimum Asset Management
- Pembroke Management
- Professionals' Financial
- Robitaille Asset Management
- Royal Bank of Canada
- Société de Transport de Montréal
- Sun Life Financial
- Telus Communication
- Tetrem Capital Management
- The Canadian Medical Protective Association
- The Civil Service Superannuation Board
- The Great-West Life Assurance Company
- The Public Sector Pension Investment Board (PSP Investments)
- The Toronto-Dominion Bank
- Workers' Compensation Board Alberta
- Workplace Safety and Insurance Board

REFERENCE MARKET – NON-INVESTMENT DUTIES

- AbitibiBowater
- Agropur Cooperative
- Air Canada
- Alcoa Canada
- ArcelorMittal Canada
- AstraZeneca Canada
- Bank of Montreal
- BCE
- Bell Aliant Regional Communications
- Bell Helicopter Textron Canada Limited
- Bombardier Transportation Canada
- Canadian Broadcasting Corporation
- Canadian National Railway Company
- CN Investment Division
- COGECO
- Desjardins Group
- Domtar
- Ericsson Canada
- Gaz Métro
- General Electric Canada
- Hydro-Québec
- Imperial Tobacco Canada
- Intact Financial Corporation
- Intact Investment Management
- Laurentian Bank of Canada
- Lombard Canada
- Loto-Québec
- McKesson Canada
- Merck Canada
- Microsoft Canada
- Molson Coors Canada
- Power Corporation of Canada
- Rio Tinto Canada
- Rolls-Royce Canada
- SGI Canada
- SNC-Lavalin Group
- Standard Life Financial
- Telus Communication
- Tembec
- The CSL Group
- The Great-West Life Assurance Company
- The Public Sector Pension Investment Board (PSP Investments)
- TMX Group
- UAP
- Uni-Select
- VIA Rail Canada
- Videotron
- Yellow Media

REFERENCE MARKET – PRESIDENT AND CEO

- Alberta Investment Management Corporation
- BIMCOR
- British Columbia Investment Management Corporation
- CPP Investment Board
- Healthcare of Ontario Pension Plan (HOOPP)
- Ontario Municipal Employees Retirement System (OMERS)
- Ontario Teachers' Pension Plan (OTPP)
- The Public Sector Pension Investment Board (PSP Investments)

Report of the Human Resources Committee

SUMMARY OF THE COMPENSATION OF THE PRESIDENT AND CEO AND THE FIVE MOST HIGHLY COMPENSATED EXECUTIVES FOR 2009-2011

Name and main position	Fiscal year	Base salary ($)	Incentive compensation[1] ($)	Other compensation ($)	Direct compensation[2] ($)	Pension plan's value[3] ($)
Michael Sabia	2011	500,000	400,000	40,000	940,000	N/A
President and CEO[4]	2010	500,000	N/A	40,000	540,000	N/A
	2009	403,846	N/A	32,308	436,154	N/A
Roland Lescure	2011	450,000	660,000	30,000	1,140,000	226,200
Executive Vice-President and	2010	450,000	780,000	30,000	1,260,000	179,200
Chief Investment Officer	2009	110,769	N/A	407,385	518,154	29,100
Normand Provost	2011	395,000	655,000	30,000	1,080,000	270,000
Executive Vice-President, Private Equity and	2010	362,885	712,500	30,000	1,105,385	307,600
Chief Operations Officer[5]	2009	348,558	300,000	28,365	676,923	234,300
Daniel Fournier	2011	450,000	715,000	285,000	1,450,000	510,300
President, Real Estate group and Executive Vice-President, Real Estate[6]	2010	195,330	420,000	313,022	928,352	191,200
Claude Bergeron	2011	375,000	275,000	296,667	946,667	103,800
Executive Vice-President and	2010	329,066	325,000	296,667	950,733	214,700
Chief Risk Officer[7]	2009	305,177	350,000	25,038	680,215	237,200
Bernard Morency	2011	375,000	260,000	280,000	915,000	303,800
Executive Vice-President,	2010	375,000	250,000	280,000	905,000	180,200
Depositors and Strategic Initiatives[8]	2009	136,250	300,000	301,762	738,012	32,900

1. As mentioned on page 117 of this annual report, executives must defer a minimum of 40% of their awarded incentive compensation calculated in a co-investment portfolio, as required under the incentive compensation program. In 2013, executives will be eligible to receive a deferred and co-invested incentive payment increased or decreased by the Caisse's mean absolute return. The amounts deferred and co-invested until 2013 regarding 2010 are presented in the 2010 Annual Report on page 112. The amounts deferred and co-invested until 2014 regarding 2011 are: $800,000 for Mr. Sabia, $440,000 for Mr. Lescure, $670,000 for Mr. Provost, $585,000 for Mr. Fournier, $275,000 for Mr. Bergeron and $390,000 for Mr. Morency.
2. The direct compensation value includes the salary, annual incentive compensation paid and other compensation. It does not include deferred and co-invested incentive compensation and the value of the pension plan.
3. The value of the pension plan equals the present value of the pension benefits earned during the year and any compensatory change that occurred during the year. This value corresponds to the change due to compensatory items, as presented in Table 63 of this annual report.
4. Upon his appointment, Mr. Sabia waived his participation in any incentive compensation program for 2009 and 2010. In addition, he waived participation in any pension plan for the duration of his mandate. However, participation in the Pension Plan of Management Personnel is mandatory under CARRA rules. For details, visit http://www.carra.gouv.qc.ca/ang/regime/rrpe/rrpe_s03.htm.
5. In March 2012, the responsibilities of Chief Operations Officer, assumed by Mr. Provost since April 30, 2009, were transferred to Mr. Morency. Having carried out his management mandate with Operations, Mr. Provost remains responsible for the Caisse's infrastructure and private equity. His new title is presented on page 137 of this annual report.
6. Mr. Fournier received a lump-sum indemnity staggered over several years as compensation for money he had to waive upon ceasing his previous activities. In 2011, Mr. Fournier received a final amount of $255,000.
7. Mr. Bergeron received, in recognition of his past and ongoing contribution to the active management and restructuring of the ABTN file, a lump sum of $266,667 in 2011.
8. Mr. Morency received a lump-sum indemnity staggered over several years as compensation for professional fees he had to waive upon his appointment by ceasing to provide consulting services to clients other than the Caisse. This amounted to $250,000 in 2011. Since March 2012, Mr. Morency has been in charge of managing Operations, in addition to his existing duties. His new title is presented on page 136 of this annual report.

PENSION SUMMARY OF THE PRESIDENT AND CEO AND THE FIVE MOST HIGHLY COMPENSATED EXECUTIVES

Name and main position	Years of credited service[1]	Annual benefits[2] ($) At year-end	Annual benefits[2] ($) At age 65	Accrued obligation at start of year[3] ($)	Variation due to compensatory items[4] ($)	Variation due to non-compensatory items[5] ($)	Accrued obligation at year-end[3] ($)
Michael Sabia President and CEO[6]	2.8	7,100	24,400	0	0	0	0
Roland Lescure Executive Vice-President and Chief Investment Officer	2.2	80,600	486,800	332,600	226,200	127,100	685,900
Normand Provost Executive Vice-President, Private Equity and Chief Operations Officer	31.6	259,200	409,200	1,710,100	270,000	345,000	2,325,100
Daniel Fournier President, Real Estate group and Executive Vice-President, Real Estate	1.4	51,600	252,300	239,200	510,300	60,500	810,000
Claude Bergeron Executive Vice-President and Chief Risk Officer	31.2	198,300	322,800	1,037,700	103,800	122,000	1,263,500
Bernard Morency Executive Vice-President, Depositors and Strategic Initiatives	2.4	46,800	114,300	261,000	303,800	40,300	605,100

1. This is the number of years of credited service in the basic plan.
2. The annual benefits equal the amount of the pension payable under the Basic and Supplemental Plans at the end of the year or at age 65.
3. The obligations do not include those of the Basic Plan since employer and employee contributions are remitted to CARRA, which assumes the liability for the benefits. The Caisse's contribution was approximately $14,726 per executive in 2011.
4. The variation is due to compensatory items, including the annual cost of pension benefits, base salary changes, plan changes or the awarding of additional years of service.
5. The variation is due to non-compensatory items, including interest accrued on the accrued obligation at the beginning of the year, actuarial gains and losses associated with non-compensatory items and changes in actuarial assumptions.
6. Mr. Sabia waived participation in any pension plan. However, participation in the Pension Plan of Management Personnel is mandatory under CARRA rules. For details, visit http://www.carra.gouv.qc.ca/ang/regime/rrpe/rrpe_s03.htm.

Report of the Human Resources Committee

SUMMARY OF SEVERANCE PAY FOR THE PRESIDENT AND CEO AND THE FIVE MOST HIGHLY COMPENSATED EXECUTIVES

Name and main position	Precipitating event	Theorical amount payable ($)
Michael Sabia President and CEO[1]	Contract termination	0
Roland Lescure Executive Vice-President and Chief Investment Officer[2]	Non-voluntary termination	900,000
Normand Provost Executive Vice-President, Private Equity and Chief Operations Officer[3]	Non-voluntary termination	395,000
Daniel Fournier President, Real Estate group and Executive Vice-President, Real Estate[2]	Non-voluntary termination	900,000
Claude Bergeron Executive Vice-President and Chief Risk Officer[4]	Non-voluntary termination	750,000
Bernard Morency Executive Vice-President, Depositors and Strategic Initiatives[4]	Non-voluntary termination	750,000

1. No severance pay is payable even if the departure is not voluntary.
2. This executive's employment contract provides severance pay in the event of dismissal without just cause, which equals twice his annual base salary.
3. This executive's employment contract does not include a specific condition related to his employment termination. His termination indemnity severance pay is based on the Caisse's guidelines on the subject, which provides one month of base salary for each year of service – up to a maximum of 12 months.
4. This executive's employment contract provides severance pay in the event of dismissal without just cause, which equals his annual base salary, plus an amount that equals his annual target incentive compensation.

BENCHMARKING OF POTENTIAL MAXIMUM DIRECT COMPENSATION AND TARGET DIRECT COMPENSATION FOR A SUPERIOR PERFORMANCE FOR THE PRESIDENT AND CEO AND THE FIVE MOST HIGHLY COMPENSATED EXECUTIVES[1]

	Reference Market[2,3]		Caisse
Position	Maximum direct compensation[4] ($)	Target direct compensation[5] ($)	Direct compensation in 2011 ($)
President and CEO[7]	4,249,311	2,208,958	940,000
Executive Vice-President and Chief Investment Officer[8]	3,935,000	1,842,000	1,140,000
Executive Vice-President, Private Equity and Chief Operations Officer[8]	3,280,500	1,564,500	1,080,000
President, Real Estate group and Executive Vice-President, Real Estate[8]	3,611,650	1,732,850	1,450,000
Executive Vice-President and Chief Risk Officer[3,8]	1,595,600	928,200	946,667
Executive Vice-President, Depositors and Strategic Initiatives[8]	N/A	N/A	915,000

1. Direct compensation presented in 2011 is aligned with the principle of "earned" compensation, which we define in accordance with the Income Tax Act as compensation that is "paid in cash and taxable."
2. As stipulated in the Regulation Respecting Internal Management, potential total compensation in the 75th percentile of their respective reference markets was used for the President and Chief Executive Officer and non-investment duties. The 90th percentile of the reference market was used for investment duties.
3. Potential direct compensation seen in the 90th percentile of a reference market subsegment was used for the investment duties of the Executive Vice-President and Chief Risk Officer. This subsegment includes companies in the financial services sector.
4. The market maximum direct compensation, for a superior performance, presents the potential maximum direct compensation provided by the corporate policies in the market that are positioned in the 3rd quartile for the President and Chief Executive Officer and in the 4th quartile for other duties. These theoretical amounts do not include the value of the pension plans and include the value of fringe benefits and long-term compensation granted in the past and payable during the year.
5. The market target direct compensation, for a superior performance, presents the potential target direct compensation provided by corporate policies in the market positioned in the 3rd quartile for the President and Chief Executive Officer and in the 4th quartile for other duties. These theoretical amounts do not include the value of pension plans, but include the value of fringe benefits and long-term compensation granted in the past and payable during the year.
6. These amounts reflect direct compensation paid in 2011, which does not include deferred and co-invested incentive compensation (see Note 1 in Table 62) and the value of the pension plan, but they include the value of fringe benefits. The deviation from the reference market is due to the application of the transition period provided for in the incentive compensation program (see page 115 of this annual report) and by the fact that there was no other deferred amount payable in 2011.
7. Towers Watson, Compensation of the President and Chief Executive Officer Study, Caisse de dépôt et placement du Québec, 2012.
8. Towers Watson, Compensation of Executive Committee Members Study, Caisse de dépôt et placement du Québec, 2012.

Report of the Risk Management Committee

HIGHLIGHTS

01 Refined the Caisse's risk management tools, particularly those used for credit risk measurement and the tests used to simulate market stress.

02 Examined the risk-return ratios for specialized portfolios and the Caisse overall.

03 Reviewed the enterprise risk management process and strengthened operational risk management practices.

THE RISK MANAGEMENT COMMITTEE

The Board of Directors established the Risk Management Committee to assist the Audit Committee with its responsibility of implementing a risk management process.

MANDATE

The Committee's mandate is to establish oversight guidelines and policies related to risk management. These guidelines and policies are intended to maintain the business, financial and operational risks assumed by the Caisse in the course of its operations at an appropriate level.

During the year, the Committee, in collaboration with the Governance and Ethics Committee, reviewed its mandate and that of its Chair.

A full description of the Risk Management Committee's mandate can be found in the Governance section of the Caisse's website (www.lacaisse.com).

Composition (as at December 31, 2011)

- Chair: Réal Raymond
- Members: Pierre Fitzgibbon, François R. Roy and Ouma Sananikone
- Guest member: A. Michel Lavigne, Chair of the Audit Committee

The Board Chairman attends meetings. The other Board members took turns attending Committee meetings, as observers.

ACTIVITY REPORT

Number of meetings held in 2011: 10

The Committee has various mechanisms to provide the Audit Committee and Board with the necessary assurance regarding the implementation of a risk management process. The Committee:

- Provided a verbal and written report on its activities to the Board after each meeting;
- Submitted copies of its minutes to the Audit Committee and the Board;
- Invited the Chair of the Audit Committee to each meeting.

The Committee held meetings regularly without the presence of senior management.

The report below, which describes the issues that were subject to discussions and decisions during the year, was approved by the Committee members.

Risk management oversight guidelines and policies

The year 2011 was marked by strong volatility in financial markets, which necessitated increased monitoring of these markets throughout the year. See the Risk Management section on page 51 of this report for a detailed presentation of changes in risk measurements and management's actions to continue improving risk management.

As for the Committee, in 2011 it monitored all the work related to risk management, including the integration of daily risk-return, the establishment or strengthening of frameworks and processes, and improvements to risk management tools.

The Committee fulfilled its responsibilities, primarily as follows:

- Reviewed and monitored an underweight strategy in the Equity portfolios due to increased market risk, particularly related to the European sovereign debt crisis.
- Examined the risk-return reports of an investment group's specialized portfolios or of the Caisse overall, at each Committee meeting.
- Reviewed the investment policies of certain specialized portfolios to better manage investment and risk activities and make recommendations to the Board concerning risk limits and benchmark indexes, among other things.
- Analyzed, and recommended to the Board for approval, amendments to the integrated risk management policy, mainly affecting market risk management and the measurement of certain authorization limits.
- Examined and adopted the amendments in the guideline regarding authorizations of financial instruments and other activities not provided for in the specialized portfolios' investment policies in order to optimize the process for new investment activities.
- Reviewed the method for analyzing counterparty credit risk and recommended to the Board for approval a new risk oversight process for issuers, requiring the development of detailed credit analyses on the debt securities in the portfolio.
- Discussed the oversight in place regarding concentration risk management.
- Discussed the investment process for the Canadian Equity portfolio and the liquidity of investments in that portfolio.
- Examined a report on the review of all financial derivatives held in the Caisse's portfolios, changes to be made in their oversight and monitoring of the related work.
- Reviewed the decision-making process concerning hedging of foreign exchange risk in certain portfolios.
- Examined the enterprise risk management process and discussed strengthening operational risk management practices, including the establishment of the Operational Risks Committee (ORC), a subcommittee of the Executive Committee, chaired by the head of the Risk group and composed of representatives of the Caisse's different sectors.
- Discussed the reorganization of the Risk group, aiming to enhance the effectiveness and efficiency of risk management activities and to align them with the Caisse's strategic direction.
- Reviewed the Risk group's business plan and followed up at each Committee meeting.
- Received accountability reports on compliance and internal controls.

Investment proposals

- Reviewed and recommended investment proposals under the Board's authority, considering the analysis of the team responsible for the transaction, the project risk analysis and, more specifically, its impact on the risk level and concentration of the specialized portfolio and the Caisse's overall portfolio, as well as the investment's compliance with risk oversight policies and guidelines.
- Discussed the risk-return relationship for each investment proposal submitted to the Committee.
- Received the report on the monitoring of investment proposals authorized by the Board and the Caisse's senior management (not falling under the Board's purview).
- Regularly monitored major investments with a particular impact on the risk level and concentration of the specialized portfolio and the Caisse's overall portfolio.

Depositors

- Analyzed the certificates of compliance with the depositors' investment policies and the investment policies of specialized portfolios.

USE OF EXTERNAL EXPERT SERVICES

The Risk Management Committee did not use any external expert services in 2011.

Board of Directors and Executive Committee

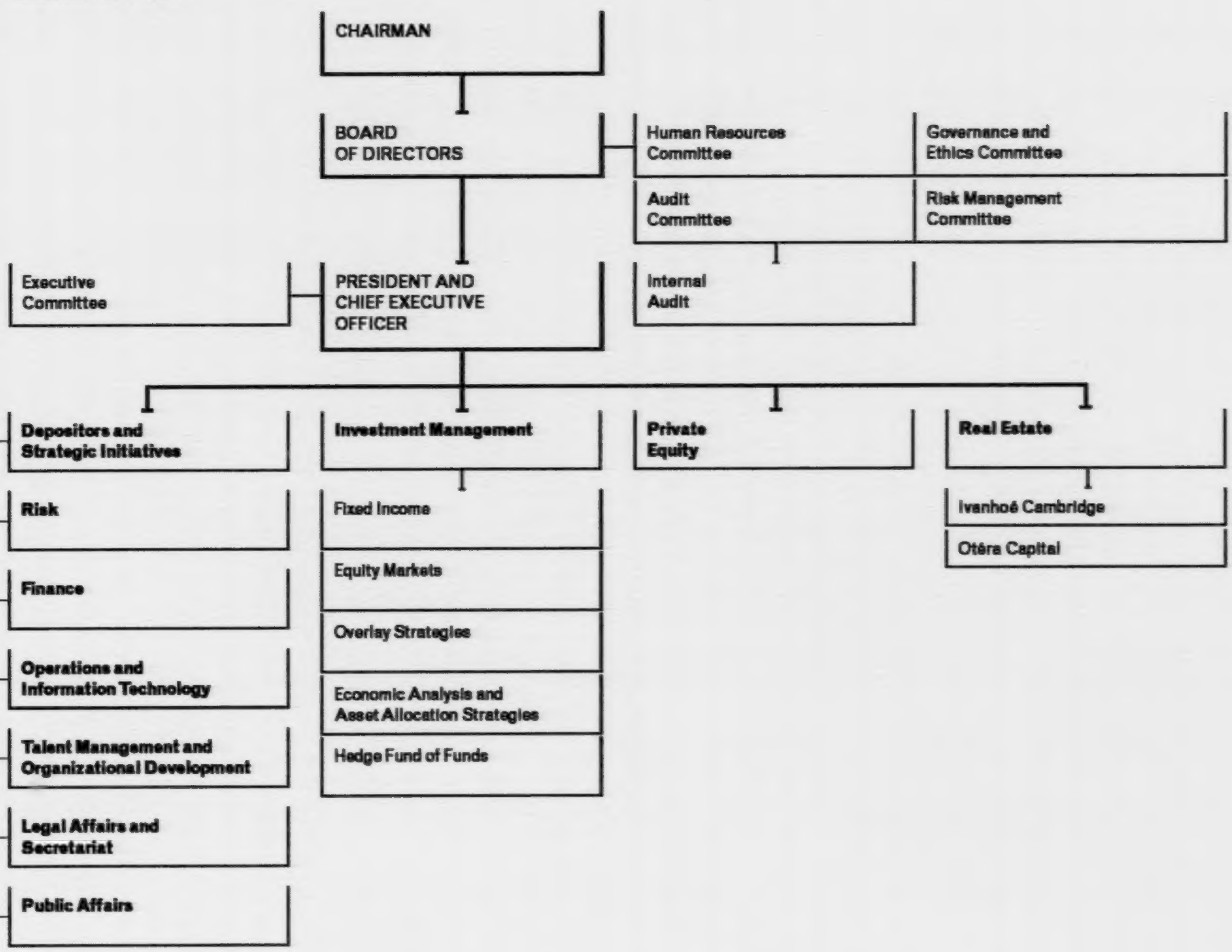
Organizational structure

The Caisse's Board of Directors consists of the Chairman, President and Chief Executive Officer, depositors' representatives and independent members. The Act respecting the Caisse stipulates that at least two-thirds of the directors, including the Chairman, must be independent.

The Executive Committee is composed of the President and Chief Executive Officer and executives from the Caisse's various sectors. As at December 31, 2011, la Caisse had a total of 789 employees. At this same time, the Real Estate group had a total of 1,769 employees.

ORGANIZATIONAL STRUCTURE – CAISSE

(as at December 31, 2011)



REAL ESTATE GROUP

The Real Estate group makes equity and debt investments in the office, retail and residential building sectors in the Americas, Europe and Asia. Real estate activities fall into two specialized portfolios: Real Estate and Real Estate Debt.

The Real Estate portfolio includes the activities of Ivanhoé Cambridge, one of the 10 largest real estate companies in the world.

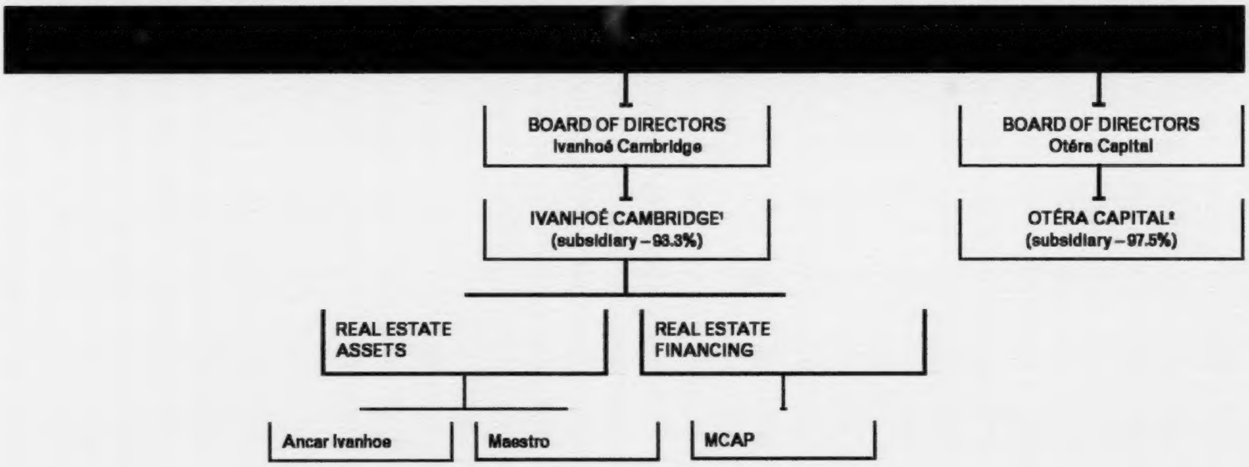
In 2011, Ivanhoé Cambridge reviewed its own business model, moving from an organizational structure based on asset categories (shopping centres, offices, multi-residential buildings and other real estate) to a structure based on its two core activities: real estate operation and investment activities. This new strategy is conducive to a more integrated approach that involves two strategic thrusts to pool people's knowledge and expertise in order to improve efficiency and better deal with global competition.

The Real Estate Debt portfolio includes the activities of Otéra Capital, which offers a full range of commercial real estate financing services.

For more information regarding the Caisse's real estate sector, visit our website (www.lacaisse.com).

ORGANIZATIONAL STRUCTURE – REAL ESTATE

(as at December 31, 2011)



1. Daniel Fournier, Chairman and Chief Executive Officer, Ivanhoé Cambridge
2. Raymond McManus, President and Chief Executive Officer, Otéra Capital

Board of Directors

ELISABETTA BIGSBY
Corporate Director

Chair of the Human Resources Committee
Board member since November 4, 2009

Elisabetta Bigsby pursued her career at the Royal Bank of Canada from 1977 to 2007, where she was notably a member of the Executive Committee and the Chief Human Resources Officer. She also sat on the Bank's Pension Plan Committee from 1989 to 2007. She currently serves as a corporate director and advises companies on leadership development in cooperation with the International Consortium for Executive Development Research, in Massachusetts and sits on Cogeco Board of Directors. She is also a past director of a number of organizations.

CLAUDETTE CARBONNEAU
Corporate Director

Member of the Governance and Ethics Committee
Board member since September 25, 2002

Claudette Carbonneau holds a bachelor's degree in political science. She was the first woman to serve as President of the Confédération des syndicats nationaux (CSN), a position she held from 2002 to May 2011. She served as Chair of Fondaction until October 2011 and Vice-President of the General Council of the International Trade Union Confederation and First Substitute of the Canadian delegation to the ITUC General Council until November 2011. Finally, Ms. Carbonneau was also a member of the Government of Québec's Advisory Council on Labour and Manpower until June 2011.

LOUISE CHARETTE
Corporate Director

Member of the Governance and Ethics Committee and Audit Committee
Board member since April 27, 2005

Louise Charette holds a master's degree in business administration and a doctorate in mathematics. From 1981 to 2007, she held various management positions at the Commission de la construction du Québec, including Assistant Director General, Administration and Finance. In addition to her duties as Assistant Director General, she headed the Investment Committee for more than ten years. Ms. Charette has also devoted her talents to a number of organizations. She was a founding member of the Regroupement des femmes cadres du Québec and served as Vice-Chair of the Société d'habitation du Québec. Ms. Charette has been active with non-profit organizations for several years and sits on the Advisory Board of the Autorité des marchés financiers.

JOCELYNE DAGENAIS
President and Chief Executive Officer, Commission administrative des régimes de retraite et d'assurances

Board member since January 1, 2008

Jocelyne Dagenais has been President and Chief Executive Officer of the Commission administrative des régimes de retraite et d'assurances (CARRA) since December 3, 2007. She has worked for the Québec public sector since 1977. Ms. Dagenais has held various positions, including Deputy Minister and Assistant Deputy Minister, with several ministries. She has also been a member of many boards of directors, including those of Services Québec, the Centre des services partagés du Québec, the Régie de l'assurance maladie du Québec and Canada Health Infoway.

MICHÈLE DESJARDINS
President, Koby Consulting
Senior Associate, Lansberg Gersick & Associates LLC

Member of the Governance and Ethics Committee
Board member since December 21, 2009

After pursuing a career in the pulp and paper industry with Abitibi-Price and Inter City Papers, Michèle Desjardins held various positions with Price Waterhouse and the Commission des valeurs mobilières du Québec. She subsequently headed the Family Business Institute. For more than a decade, she has served as Senior Associate at Lansberg Gersick & Associates LLC and President of Koby Consulting. Ms. Desjardins is a Certified Management Consultant, a member of the Ordre des administrateurs agréés du Québec and a Certified Corporate Director. She currently sits on the Board of the Société du Palais des congrès de Montréal.

PIERRE FITZGIBBON
President and Chief Executive Officer, Atrium Innovations

Member of the Audit Committee and Risk Management Committee
Board member since April 22, 2009

Pierre Fitzgibbon has a background in the financial, manufacturing, health and telecom sectors. He has been the President and Chief Executive Officer of Atrium Innovations since 2007 and sits on its Board of Directors. In particular, he has worked with such organizations as the National Bank of Canada group, the Telesystem group's international operations, Domtar, Peerless Carpet Corporation and Price Waterhouse. Mr. Fitzgibbon currently sits on the Board of Directors of Transcontinental. He is a past Chairman of the Board of Cylis and a past director of several companies operating in the technology, telecommunications and financial services sectors, as well as various charitable organizations.

DENYS JEAN

President and Chief Executive Officer,
Régie des rentes du Québec

Board member since September 14, 2011

Denys Jean has been the President and Chief Executive Officer of the Régie des rentes du Québec and a member of its Board of Directors since August 29, 2011. Mr. Jean has a bachelor's degree in economics. He has held several high-level positions in the Québec public service since 1991. At the time of his appointment to the Régie, he was Secretary of the Secrétariat du Conseil du trésor, Deputy Minister at the Ministère des Services gouvernementaux and Chief Information Officer. Mr Jean also served as Deputy Minister at the Ministère des Transports (2006-2009) and held the same position at the Ministère des Affaires municipales et des Régions (2003-2006). Prior to those appointments, he was Assistant Deputy Minister at the Ministère des Affaires municipales et de la Métropole (1999-2003) and at the Ministère de l'Environnement (1991-1999). He is a member of the boards of directors of the Centre des services partagés du Québec and the Réseau international d'implantation d'entreprises. Mr. Jean is also a member of the Audit Committee of the Ministère de la Justice.

A. MICHEL LAVIGNE

Corporate Director

Chair of the Audit Committee
Guest Member of the Risk Management Committee Board member since April 27, 2005

A. Michel Lavigne was President and Chief Executive Officer of Raymond Chabot Grant Thornton until 2005. He was also Chairman of Grant Thornton Canada and a member of the Board of Directors of Grant Thornton International. He is Chairman of Teraxion and Primary Energy Recycling and sits on various boards of directors, including Quebecor Media, TVA and Canada Post. Mr. Lavigne has received many distinctions, most notably, the designation of Fellow of the Ordre des comptables agréés du Québec.

JEAN PIERRE OUELLET

Corporate Director
Advisor, Capital Saint-Laurent

Board member since March 6, 2009

Jean Pierre Ouellet has been an advisor to Capital Saint-Laurent since 2008. His past positions include Senior Partner at Montréal law firm, Stikeman Elliott, and Senior Vice-President, Chief Legal Officer and Corporate Secretary at Canadian National Railway. More recently, he served as Vice-Chairman of the Board of RBC Capital Markets, responsible for Québec. He is a member of the Board of the Noranda Income Fund, where he chairs the Governance and Human Resources Committee, and is a member of the Board of La Mancha Resources Inc. Mr. Ouellet is also a member of the Québec Advisory Board of Talisman Energy. He was a board member of a number of Canadian companies in the past, including Bionair, Hartco Enterprises, C-Mac and Crédit commercial de France (Canada), as well as several non-profit organizations.

RÉAL RAYMOND

Corporate Director

Chair of the Risk Management Committee
Board member since March 13, 2009

During his 37-year career with National Bank of Canada, Réal Raymond held a variety of positions including President – Personal and Commercial Banking, President and Chief Operating Officer and, finally, President and Chief Executive Officer. He currently sits on the boards of directors of Metro, Héroux-Devtek Inc., Aéroports de Montréal and the Institute for Research in Immunology and Cancer of Université de Montréal. Mr. Raymond has an MBA from Université du Québec à Montréal (UQAM) where he currently serves as Chancellor. He holds an honorary doctorate from the UQAM School of Management (ESG UQAM).

FRANÇOIS R. ROY

Corporate Director

Member of the Risk Management Committee and Audit Committee
Board member since December 21, 2009

François R. Roy began his career at The Bank of Nova Scotia, where he held several positions in Canada and the United States. He later worked for Société générale de financement du Québec, prior to becoming the Chief Financial Officer at Quebecor, Avenor and Telemedia Corporation. He has been a corporate director since 1998 and sits on the boards of directors of Transcontinental, Fibrek, Noranda Income Fund, Capstone Infrastructure Corporation and La Mancha Resources Inc. He was Chief Financial Officer at McGill University from 2007 to 2010. For the past 25 years, Mr. Roy has been and continues to be active with many not-profit organizations.

MICHAEL SABIA

President and Chief Executive Officer,
Caisse de dépôt et placement du Québec

Board member since March 14, 2009

Michael Sabia has been the President and Chief Executive Officer of the Caisse since March 2009. Prior to joining the Caisse, Mr. Sabia was President and Chief Executive Officer of BCE and Chief Financial Officer of Canadian National Railway. Earlier in his career, he was a senior official in the Government of Canada. Mr. Sabia is a member of the governing council of Finance Montréal. He was also a member of the North American Competitiveness Council from 2005 to 2008. Mr. Sabia has been very active in the community over the past few years; some of his endeavours have notably included serving as the Honorary Chairman of the Bal du Centre hospitalier universitaire de Québec, chairing the fundraising campaign for Maison Saint-Gabriel and co-chairing the campaign for the Montréal Heart Institute Foundation. In 2006, he co-chaired the campaign for Centraide du Grand Montréal.

Board of Directors

OUMA SANANIKONE

Corporate Director

Member of the Risk Management Committee and Human Resources Committee
Board member since August 28, 2007

Ouma Sananikone is a corporate director with extensive experience in the European and Asian financial markets. She has worked for 25 years in banking, financial services and investment management. She is an external director of Icon Parking Systems and Air-Serv. Ms. Sananikone has been a board member of numerous public and private companies and of charitable organizations, in Australia and elsewhere in the world. Her main areas of interest are governance, ethics, community issues and leadership.

ROBERT TESSIER

Chairman of the Board of Directors
Caisse de dépôt et placement du Québec

Chair of the Governance and Ethics Committee
Member of the Human Resources Committee
Board member since March 5, 2009

Robert Tessier has an extensive background as a corporate director and senior executive in both the public and the private sectors. He has served as President and Chief Executive Officer as well as Chairman of the Board of Directors of Gaz Métro and as the head of Marine Industries Limited and Alstom Canada. He has also been Secretary of the Conseil du trésor du Québec, Québec's Deputy Minister of Energy and Natural Resources and Executive Vice-President of the Société générale de financement du Québec. Mr. Tessier is currently Chair of the IG Funds Independent Review Committee and is a Board member of Green Mountain Power. He also sits on the boards of directors of several other organizations.

Executive Committee

CLAUDE BERGERON

Executive Vice-President and Chief Risk Officer

Since November 1, 2010, Claude Bergeron has overseen the teams responsible for monitoring, measuring and analyzing risk at the Caisse. Mr. Bergeron has more than 20 years of experience with the Caisse where he has played a leading role in a number of major domestic and international files and investments. He became Acting Chief Risk Officer in August 2009. Under his leadership, the Caisse completed the implementation of an accelerated program to strengthen its risk management practices. Mr. Bergeron is a member of the Barreau du Québec and the Canadian Bar Association. He completed an international MBA program, specializing in financial services and insurance. He has received many awards during his career, including the Commerce-ZSA Québec Lifetime Achievement Award (2007).

FRÉDÉRICK CHARETTE

Executive Vice-President Talent Management and Organizational Development

Frédérick Charette oversees the recruitment, compensation, professional development, payroll, management information and human resources advisory teams. Over the course of his career, Mr. Charette has worked both abroad and in Montréal, with firms hiring high-level professionals. He was particularly instrumental in expanding McKinsey's organizational development practice in the Asia-Pacific region. Before joining the Caisse, he served as Head of People for KPMG Australia. Mr. Charette is a member of the International Positive Psychology Association, a member of the Neuro-Leadership Institute and a Board member of the Healthy Enterprises Group.

MARC CORMIER

Executive Vice-President, Fixed Income Investment Management

Marc Cormier oversees the Caisse's fixed income teams and portfolios. He has close to 20 years of experience in the banking and investment industry. Since joining the Caisse in 1997, he has held various positions with the fixed income investments team. Mr. Cormier has worked for several French financial institutions, including Crédit Lyonnais, in Montréal, where he served as treasurer, and Crédit Commercial de France, in Paris.

Mr. Cormier has been a member of the Board of Directors of the Institut de la finance structurée et des instruments dérivés de Montréal since 2012.

DENIS COUTURE

Executive Vice-President Public Affairs

Denis Couture is in charge of internal communications, government relations, public relations and public policy issues management. He has spent more than 25 years working with several large Québec and Canadian corporations, and has solid experience in the international arena. Prior to joining the Caisse, he was Senior Vice-President, Corporate and International Affairs, at Brookfield Asset Management, where he was also in charge of investor relations. Previously, he was Senior Vice-President, Communications, Government Relations and International Affairs at Noranda and Falconbridge. He was also Vice-President of Communications and Government Relations at Domtar, and Vice-President and Partner, Financial Communications at National Public Relations. Mr. Couture currently sits on the Board of Directors of the Canada-India Business Council, the Canadian Journalism Foundation, the Fondation du Festival des films du monde and the Opéra de Montréal.

Executive Committee

DANIEL FOURNIER

Executive Vice-President, Real Estate
Chairman and Chief Executive Officer, Ivanhoé Cambridge
Chairman, Otéra Capital

Daniel Fournier oversees the investments, strategies, management and development of the Caisse's real estate portfolios. In addition, Mr. Fournier is the Chairman and Chief Executive Officer of Ivanhoé Cambridge, one of the 10 largest real estate companies in the world. He is also the Chairman of Otéra Capital, a company specialized in the underwriting, structuring, syndication and active management of commercial real estate loans. Mr. Fournier has more than 30 years of experience in the business community and solid expertise in real estate. He holds a Bachelor of History from Princeton University (U.S.) and a Bachelor of Arts in Jurisprudence from Oxford University (U.K.), where he received a Rhodes Scholarship. Mr. Fournier is very involved in his community and most notably has served as President and Founder of NF Canada, an organization dedicated to helping people living with neurofibromatosis. He is a past Chairman of the Board of the McCord Museum. Over the years, he has been a board member of Fondation Jean Lapointe, the Sainte-Justine University Hospital Center Foundation, the YWCA and YMCA Foundations and the Château Ramezay Museum Foundation.

MARIE GIGUÈRE, AD. E.

Executive Vice-President, Legal Affairs and Secretariat

Marie Giguère has overseen the Legal Affairs, Corporate Secretariat and Policies and Compliance teams since November 1, 2010. She has extensive experience in commercial and corporate law, as well as in mergers and acquisitions. She was a partner at Fasken Martineau for many years and held management positions at the Montréal Exchange, Molson Inc. and Otéra Capital, a real estate subsidiary of the Caisse. Ms. Giguère has a bachelor's degree in civil law from McGill University and is a member of the Barreau du Québec. She is a member of the Board of the McGill University Health Centre and chairs the Douglas Mental Health University Institute Foundation. In 2005, she received the Commerce-ZSA, an excellence award honouring her law career.

JEAN-LUC GRAVEL

Executive Vice-President, Equity Markets Investment Management

Jean-Luc Gravel oversees the equity investment teams covering the Canadian and U.S. markets as well as foreign countries, including emerging markets. He develops strategies and explores new opportunities for all the Caisse's equity market activities. He joined the Caisse's Canadian Equity team in 2004, after working in securities at Gendron Norris, Nesbitt Burns, Newcrest Capital and TD Newcrest Securities. He is a Chartered Financial Analyst (CFA) and a Fellow of the Canadian Securities Institute. He is currently a member of the Board of Directors of the International Financial Centre of Montréal (IFC Montréal) and a member of the SMB Advisory Committee of the Autorité des marchés financiers (AMF).

ROLAND LESCURE

Executive Vice-President and Chief Investment Officer

Roland Lescure oversees investment strategy, asset allocation and research. He supervises equity, fixed-income securities and hedge fund investments in addition to overlay strategies. He also plays a key advisory role in private equity and real estate investments. Mr. Lescure has many years of experience in the investment field, and has worked with such firms as Groupama Asset Management, Natexis, and the asset management subsidiary of the Caisse des Dépôts et Consignations in France, the French Ministry of Finance and the Institut national de la statistique et des études économiques (INSEE). He has also taught and contributed to several initiatives undertaken by the Conseil d'analyse économique de France. Mr. Lescure graduated from the École Polytechnique and ENSAE. He also earned an M.Sc. in Economics from the London School of Economics. Mr. Lescure is a member of the Board of Directors and the Strategic Committee of the McCord Museum.

PIERRE MIRON

Executive Vice-President, Operations and Information Technology

Pierre Miron's mandate consists particularly of continuing the repositioning work already initiated to enhance the agility and effectiveness of the Operations and Information Technology teams in order to ensure they are well aligned with the needs of the sectors being served. Pierre Miron has more than 25 years of experience in the field of information technology management, of which the last 15 years were in the financial sector. Prior to joining the Caisse in 2010 as Senior Vice-President, Information Technology, he had held various management positions at CGI, National Bank Financial and National Bank of Canada. Mr. Miron holds a bachelor of management information systems from Université du Québec à Montréal. He is a member of the Réseau TIQ, an organization that brings together some 25 IT executives from large companies and organizations in Québec.

BERNARD MORENCY

Executive Vice-President, Depositors, Strategy and Chief Operations Officer

Bernard Morency oversees the teams responsible for depositors' accounts, strategic planning, operations and information technology. Mr. Morency joined the Caisse in December 2007 and was promoted to the position of Executive Vice-President, Depositors and Strategic Initiatives in April 2009. In March 2012, in connection with the implementation of the Caisse's strategic plan, he also became Chief Operations Officer. Prior to joining the Caisse, Mr. Morency worked for Mercer for more than 30 years, during which time he was called upon to advise a number of leading Canadian private and public corporations. He was a member of Mercer's global executive team and fulfilled a variety of leadership and senior management roles. Mr. Morency is a Fellow of the Canadian Institute of Actuaries and the U.S. Society of Actuaries (SOA) and is a member of the Conference Board of Canada and of the Board of Directors of CIRANO.

MAARIKA PAUL

Executive Vice-President and Chief Financial Officer

Maarika Paul is responsible for monitoring financial performance, completing treasury operations, measuring and analyzing returns, preparing accounting and financial information, controlling operating expenses, applying best practices in financial governance, and managing business services. A chartered accountant and chartered business valuator, Ms. Paul has more than 25 years of experience in financial management. She initially spent 10 years with KPMG, an international audit, taxation and advisory services firm. In 1994, she joined BCE, where she worked until winter 2011. During that period, her responsibilities included performance evaluation of BCE subsidiaries, financial planning, mergers and acquisitions and investor relations. She also held the position of Senior Vice-President, Corporate Communications and, more recently, held the position of Senior Vice-President, Corporate Services. Ms. Paul holds a Bachelor of Business Administration degree (Accounting) from McGill University. She sits on the Board of Directors of the Montreal Children's Hospital Foundation.

NORMAND PROVOST

Executive Vice-President, Private Equity

Normand Provost oversees the teams that invest in the long-term growth of companies. He supervises strategies development and portfolio management, and coordinates the Caisse's network of local and international partners. Since September 2009, Mr. Provost has also assumed the leadership of all of the Caisse's initiatives in Québec. He heads the steering committee in charge of these initiatives and oversees the team in charge of business development in Québec. He is also the Caisse's lead representative in its various activities throughout Québec. Mr. Provost brings 35 years of industry experience to the table, 32 of which have been with the Caisse, where he created the Private Equity team and portfolios and developed its investment business model. Mr. Provost has covered every aspect of corporate financing and has brought hundreds of transactions to fruition.

MICHAEL SABIA

President and Chief Executive

Michael Sabia is responsible for the strategic direction of the Caisse and determines the necessary course of action to fulfill its mission. He chairs the Executive Committee and also sits on the Board of Directors. Prior to joining the Caisse, Mr. Sabia was President and Chief Executive Officer of BCE and Chief Financial Officer of Canadian National Railway. Earlier in his career, he was a senior official in the Government of Canada. Mr. Sabia is a member of the governing council of Finance Montréal. He was also a member of the North American Competitiveness Council from 2005 to 2008. Mr. Sabia has been very active in the community over the past few years; some of his endeavours have notably included serving as the Honorary Chairman of the Bal du Centre hospitalier *universitaire de Québec*, chairing the fundraising campaign for Maison Saint-Gabriel and co-chairing the campaign for the Montréal Heart Institute Foundation. In 2006, he co-chaired the campaign for Centraide du Grand Montréal.

Financial Report

Analysis of Operating Expenses and External Management Fees

Operating expenses represent the Caisse's total portfolio management and administration costs. External management fees are amounts paid to external financial institutions to manage funds on the Caisse's behalf. Operating expenses include expenditures for the management of the Real Estate and Real Estate Debt portfolios. Operating expenses related to the management and administration of real estate assets and mortgages are deducted from real estate investment income and mortgage income, respectively.

For fiscal year 2011, operating expenses totaled $269 million, a $12 million increase over 2010, partially due to the recruitment of resources to strengthen the information technology and research sectors. However, bringing strategic IT organization functions in-house, as was announced last year, and simplifying procedures, enabled the Caisse to save close to $25 million.

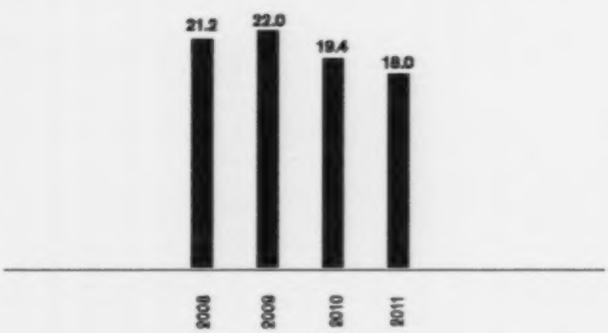
External management fees totaled $9 million, lower than the $12 million figure reported in 2010. Fees for external management are claimed as a deduction against investment income.

Operating expenses and external management fees amounted to $278 million in 2011, up $9 million or 3.3% from $269 million in 2010. This represents 18 cents per $100 of average net assets, placing the Caisse among the leading institutional fund managers (see Figure 68).

OPERATIONAL EFFICIENCY

The Caisse periodically reviews its procedures to maintain strict control over its operating expenses. It aims to keep operating expenses at a level that, given the composition of its investments, is favourably comparable to that of same-size institutional fund managers with similar operations. For many years, the Caisse has been benchmarking its costs by asset class. Generally, its total costs compare favourably with those of its peers.

OPERATING EXPENSES AND EXTERNAL MANAGEMENT FEES EXPRESSED IN CENTS PER $100 OF DEPOSITORS' AVERAGE NET ASSETS
(for periods ended December 31 – in cents)



CONSOLIDATION OF THE OPERATIONAL AND INFORMATION TECHNOLOGY BUSINESS MODEL

In 2011, the Caisse continued its efforts to consolidate its business model, among other things by implementing a model of governance and integrated processes for Operations and IT, and by moving to a new outsourcing contract for IT services that is aligned with the new business model and more open to technology market opportunities.

The Caisse has acquired an enterprise architecture and has completed some important work, including:

- a new-generation system for managing liquid market portfolios;
- the complete integration of all private equity products in a single specialized system;
- the establishment of the bases for simplified data access by setting up the Caisse data warehouse.

The Caisse has also developed a new information security policy and a master plan for implementing it. As well, it enhanced its general IT controls by adopting the internationally renowned CobiT 5.0 governance and management model.

CDP Financial

CDP Financial, a wholly owned subsidiary of the Caisse, enters into financing transactions in local and international institutional markets by issuing commercial paper and term notes. These transactions are aimed at optimizing the financing costs of the Caisse's activities and its subsidiaries, providing greater financing source diversification.

HIGHLIGHTS

01 The fair value of borrowings of CDP Financial totaled $9.8 billion, confirming a year of stability.

02 Credit rating agencies reaffirmed investment grade credit ratings with a stable outlook, namely AAA (DBRS), AAA (S&P) and Aaa (Moody's) – to the Caisse and CDP Financial.

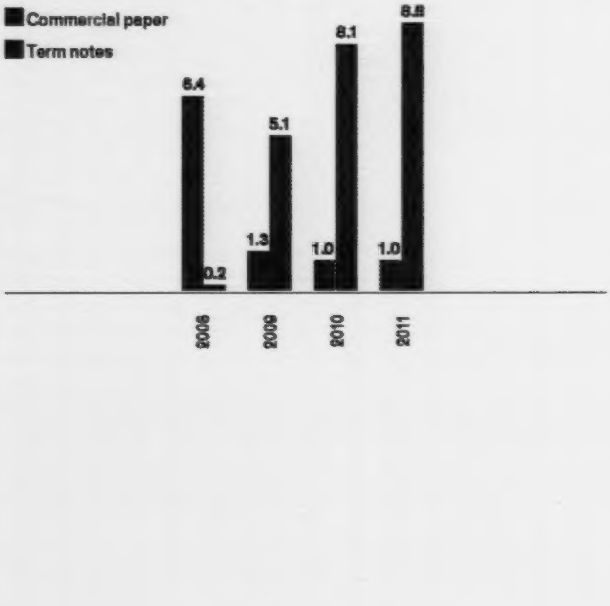
SHORT-TERM BORROWINGS

The fair value of short-term financing transactions in the Canadian market stood at $1.0 billion as at December 31, 2011, equivalent to the level as at December 31, 2010 (see Figure 69). The average maturity of the borrowings was 77 days in 2011, for transactions totaling $4.8 billion.

TERM BORROWINGS

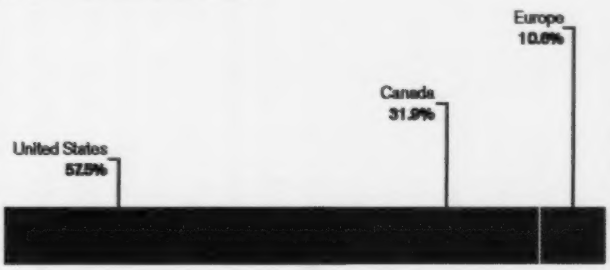
As at December 31, 2011, CDP Financial's outstanding term notes totaled $8.8 billion. The $700 million increase over 2010 is due to the impact on fair value of the drop in interest rates (see Figure 69). The outstanding notes were issued between 2009 and 2010 on Canadian, U.S. and European markets. The financing program made it possible to substitute a portion of short-term debt with longer-term debt in order to ensure matching of the financing and financed asset terms. As a result of this program, the renewal risk of the financing decreased, as did the need for currency hedging, since the term borrowings financed assets denominated in the same currency.

BREAKDOWN OF LIABILITIES – CDP FINANCIAL
(fair value as at December 31 – in billions of dollars)



CDP Financial

GEOGRAPHIC BREAKDOWN OF LIABILITIES – CDP FINANCIAL
(fair value as at December 31, 2011)



The geographic distribution of financing transactions remained stable during 2011. The debt issued on the U.S. market dominated at 57.5%, followed by the Canadian market at 31.9% and by the European market at 10.6%, as shown in Figure 70. Debt is matched to assets in the same currency.

FINANCIAL FOUNDATIONS REMAIN SOLID

Credit rating agencies Dominion Bond Rating Service (DBRS), Moody's Investors Service (Moody's) and Standard & Poor's (S&P) maintained their investment grade credit rating with a stable outlook. These credit ratings are the highest issued by these rating agencies (see Table 71).

- On November 7, 2011, S&P confirmed the Caisse's short- and long-term credit ratings with a stable outlook.
- On November 25, 2011, DBRS issued an update confirming the short- and long-term credit ratings of the Caisse and its subsidiary, CDP Financial, with a stable outlook.
- On February 21, 2012, Moody's issued an update confirming CDP Financial's short- and long-term credit ratings, and maintained a stable outlook.

CREDIT RATINGS

	Short-term	Long-term
DBRS	R-1 (HIGH)	AAA
Moody's	PRIME-1 (Aaa)	Aaa
S&P	A-1 + A-1 (HIGH)	AAA

Critical Accounting Policies

The financial statements of the Caisse de dépôt et placement du Québec are combined: they include the accounts of the Caisse's subsidiaries, the General Fund, individual funds and specialized portfolios. Depositors' holdings reported in the Combined Statement of Net Assets reflect the combination of each Caisse depositor's net account value.

Note 2 accompanying the audited Combined Financial Statements as at December 31, 2011 describes the significant accounting policies used by the Caisse. Some of these accounting policies involve subjective and complex judgments and estimates. Any changes to these judgments and estimates could have a significant impact on the Caisse's Combined Financial Statements.

CHANGEOVER TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In 2008, the Accounting Standards Board (AcSB) confirmed that Canadian generally accepted accounting principles (GAAP) would be replaced by International Financial Reporting Standards (IFRS) for all publicly accountable entities, effective January 1, 2011. The Caisse is defined as a publicly accountable entity.

In August 2011, the International Accounting Standards Board (IASB) finally published its exposure draft on investment entities (investment companies). The Caisse responded to this exposure draft to the IASB and AcSB in December and took part in several meetings with these organizations throughout the year. The IASB plans to publish the standard in late 2012 or early 2013.

The Caisse, working closely with its co-auditors, will continue to monitor developments involving this exposure draft and other standards, and will frequently review its preliminary conclusions so it can determine the other consequences for its combined financial statements.

In December 2011, the AcSB again decided to defer the adoption of IFRS for investment companies that apply the Accounting Guideline AcG-18, "Investment Companies," of the Canadian Institute of Chartered Accountants (CICA) Handbook, due to the delay in the IASB's publication of a standard covering investment companies. Since the Caisse is an investment company, the mandatory date of its changeover to IFRS has been deferred to January 1, 2014. Thus, the Caisse's Audit Committee approved the recommendation based on which the Caisse would prepare its Combined Financial Statements in accordance with IFRS starting in 2014.

EXTERNAL AUDIT

The Caisse's financial statements are prepared in accordance with Canadian generally accepted accounting principles, complying with the Act respecting the Caisse de dépôt et placement du Québec.

As required by law, the Caisse's co-auditors audited the institution's accounting records for fiscal year 2011 and issued their reports on the Caisse's financial statements. Overall, the co-auditors reported on 54 financial statements, namely the Caisse's Combined Financial Statements and those of the General Fund, 35 individual funds of the depositors and 17 specialized portfolios. They issued an auditors' report without modification for each of these financial statements.

Fair Value Measurement

Investment valuation is a process whereby a value is assigned to each investment of the Caisse in preparing its financial statements. The valuation of investments at fair value is performed periodically according to policies and processes specific to each type of investment. These procedures comply with the standards and practices of Canadian and international organizations, involving the use of stock market, valuator or independent expert valuations. The co-auditors have access to all major valuation files as part of their audit of year-end financial statements.

ACCOUNTING PROVISIONS

According to CICA Handbook Accounting Guideline AcG-18, "Investment Companies," the Caisse must determine the fair value of its investments based on the assumption that they are available for sale on the preparation date of its financial statements. This accounting guidance draws heavily on recent international developments in fair value measurement accounting standards. The purpose of these standards is to define a conceptual framework for all standards that require fair value measurement.

Under normal circumstances, the fair value (mark-to-market) rule is not a problem since all financial markets are active and investment values can be based on actual transactions involving comparable assets in various markets. However, when markets are disrupted (i.e. there are no purchases or sales), fair value must be determined by a financial model based on discounted cash flows (mark-to-model) whose parameters, namely financing and illiquidity premiums, are exposed to a certain level of subjectivity from firm to firm or valuator to valuator. The higher the premiums, the lower the fair value of the investments.

IMPACT ON THE CAISSE'S INVESTMENTS

The Caisse believes that these standards provide a coherent framework, but must be applied with discretion. These highly restrictive standards ignore the fact that, given the very long investment horizon adopted by its major depositors, the Caisse has the resources and intent to hold certain investments until their optimal value is reached.

As a result, the fair value determined as at December 31, 2011, for illiquid market investments, such as real estate, private equity, infrastructure, commercial debt and commercial mortgages, reflects the overall volatility of financial markets, which may deviate from the economic value of long-term holdings.

ESTABLISHING FAIR VALUE AT THE CAISSE

Liquid investments

The fair value of liquid investments is based on major stock market quotes, dealer or other specialized agency ratings or inputs and recognized capital market valuation methods, such as discounting future cash flows at the current interest rate. Quarterly, certain portfolios, and, semi-annually, all portfolios of unlisted liquid products are valued by independent professionals. These products, which include bonds and over-the-counter derivatives, are valued on both a valuation model and input basis.

Illiquid investments

Private equity and infrastructure

The fair value of private equity and infrastructure investments is determined semi-annually, at June 30 and December 31, unless significant circumstances require a change in value of an investment at another time during the year. The valuation is based on a policy, adopted by the Caisse's Board of Directors, which draws on the industry's best practices. The policy enables managers to value their private equity investments before approval by the Private Equity group's management.

Investments whose fair value exceeds a predetermined materiality threshold must be submitted to an independent valuation committee or an external independent valuator. The committee, which reports to the Caisse's Audit Committee, is composed of independent valuation professionals. The co-auditors attend the committee's meetings as observers. The process is complemented internally by regular and timely valuations, as events occur.

Real estate investments
The fair value of real estate investments is determined semi-annually, at June 30 and December 31, unless significant circumstances require a one-time investment valuation adjustment. The valuation of the Real Estate portfolio's investments is based on a policy adopted by the Caisse's Board of Directors. The policy draws on the industry's best practices. The fair value of the Real Estate portfolio's assets is certified by external chartered valuators. The fair value of other real estate investments is largely determined by external managers. Internal managers determine the fair value of debt associated with real estate investments. In addition, the real estate subsidiaries' external auditors audit fair values in preparing audited financial statements.

The fair value of mortgage loans and securities is based on the discounted value of future contractual cash flows at the market interest rate. This is the rate that could be obtained for loans or securities with similar terms and maturities. In cases where the timing of cash flows cannot be estimated with reasonable reliability, fair value is either the fair value of any asset given as collateral, net of expected costs of realization and any amount legally owed to borrowers, or the security's relevant market price. The Caisse relies on an independent professional valuation.

ABTNs
Asset-backed term notes (ABTNs) are financial instruments with an average maturity of five years. To provide an economic hedge to reduce the risk of loss inherent in ABTNs' fair value changes and possible collateral calls, the Caisse uses financial derivatives such as credit default and interest rate swaps.

MAV 1 ABTNs and certain ABTNs excluded from the restructuring agreement are essentially composed of credit default swaps. The fair value of the credit default swaps is established using valuation techniques that are based as much as possible on observable market data such as rate spreads, correlation factors and an illiquidity premium, which is calculated from the spread between the bid and ask prices of similar financial instruments traded on the market. For the other ABTNs, the Caisse established fair values using a valuation technique based on a financial model whose assumptions use observable market data, such as interest rates and credit quality, as much as possible. In addition, a favourable court judgment was handed down in the fall of 2011 in a case involving an ABTN excluded from the restructuring agreement. Following an analysis of the conclusions set out in this judgment, the Caisse considered this favourable development in determining the fair value of the related investment.

The fair value of the ABTNs as at December 31, 2011, was reviewed by an independent firm.

Combined financial statements

Management's responsibility for combined financial reporting

Preparation and presentation of the combined financial statements of the Caisse de dépôt et placement du Québec (the "Caisse") are the responsibility of management. The combined financial statements were prepared in accordance with Canadian generally accepted accounting principles (GAAP). We ensure that the financial data in the Annual Report are consistent with those in the combined financial statements.

The combined financial statements include amounts based on management's best estimates and judgment, with due regard for their relative importance. Moreover, in the preparation of the financial data, management has made decisions regarding the information to be presented, has made estimates and has made assumptions that affect the information presented. Future results may differ considerably from our current estimates, because of changes in the financial markets or other events that may have an impact on the fair value of the investments established as at December 31, 2011.

In our responsibility for the reliability of financial information, we use a sophisticated internal control mechanism applied systematically on all levels of the organization. This mechanism consists of organizational and operational controls, financial information disclosure controls and procedures, and internal control over financial information. The Caisse's internal control mechanism is based, among other things, on a clear definition of responsibilities, effective allocation of duties, delegation of powers, competent resources, appropriate procedures, information systems, tools and practices, relevant and reliable information whose adequacy enables all employees to fulfill their responsibilities, control, compliance and integrated risk management measures that are proportional to the issues specific to each process and designed to reduce risks likely to affect achievement of the Caisse's objects, and oversight of compliance with an extensive body of internal policies.

This control mechanism makes it possible to ensure that appropriate internal controls are in place with regards to operations, assets and records. Moreover, the Caisse's internal audit group reviews the internal controls on a regular basis. These controls and audits are designed to provide reasonable assurance regarding the reliability of the accounting records used to prepare the combined financial statements and to ensure that assets are not used or disposed of in any unauthorized manner, that liabilities are recorded, and that we meet all the legal requirements to which the Caisse is subject, including the Act respecting the Caisse de dépôt et placement du Québec.

Each year, we certify that the design of the internal control regarding financial information is sufficient and that the design and functioning of the financial information disclosure controls and procedures are effective. We report any significant irregularity to the Audit Committee of the Board of Directors of the Caisse, as necessary.

The Auditor General of Québec and Ernst & Young LLP (the "co-auditors") have audited the combined financial statements of the Caisse, and their report covers the nature and scope of the audit and expresses their opinion. The co-auditors have unrestricted access to the Audit Committee to discuss any matter relating to their audit.

The Board of Directors and its committees supervise the manner in which management fulfills its responsibility for the establishment and presentation of financial information, maintenance of appropriate internal controls, compliance with the requirements of laws and regulations, management of and control over the main risks and evaluation of major transactions. Moreover, it approves the combined financial statements and the Annual Report.

The Board of Directors has approved the combined financial statements as at December 31, 2011. It is assisted in its responsibilities by the Audit Committee, of which all members are outside directors. This Committee meets with management and the co-auditors, examines the combined financial statements and recommends their approval to the Board of Directors.

MICHAEL SABIA
President and Chief Executive Officer

MAARIKA PAUL, CA, CBV
Executive Vice-President and
Chief Financial Officer

Montréal, February 21, 2012

Independent auditors' report

To the National Assembly

Report on the combined financial statements

We have audited the accompanying combined financial statements of the Caisse de dépôt et placement du Québec, which comprise the combined statement of net assets as at December 31, 2011, and the combined statement of income and changes in net assets for the year then ended, and a summary of significant accounting policies and other explanatory information included in the notes to the combined financial statements.

Management's responsibility for the combined financial statements
Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility
Our responsibility is to express an opinion on the combined financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the combined financial statements present fairly, in all material respects, the financial position of the Caisse de dépôt et placement du Québec as at December 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Report on other legal and regulatory requirements

As required by the *Auditor General Act* (R.S.Q., chapter V-5.01), we report that, in our opinion, with the exception of the application of the changes to accounting policies explained in note 2B to the combined financial statements, these principles have been applied on a basis consistent with that of the preceding year.

Acting Auditor General of Québec

Michel Samson, CA auditor

Michel Samson, CA auditor

Montréal, February 21, 2012

ERNST & YOUNG LLP

Ernst & Young LLP

CA auditor permit no. 15859

Montréal, February 21, 2012

Combined statement of net assets

As at December 31

(In millions of dollars)	2011	2010
Assets		
Investments at fair value *(notes 3A, E and F)*	**185,606**	178,376
Advances to depositors	**761**	789
Investment income, accrued and receivable	**854**	933
Transactions being settled	**774**	177
Other assets *(note 4)*	**3,293**	2,922
	191,288	183,197
Liabilities		
Liabilities related to investments *(notes 3B and F)*	**28,554**	27,807
Transactions being settled	**110**	563
Other liabilities *(note 5)*	**1,162**	1,310
	29,826	29,680
Combined net assets	**161,462**	153,517
Less:		
Non-controlling interests *(note 6B)*	**2,497**	1,775
Depositors' net holdings *(note 6A)*	**158,965**	151,742

Derivative financial instruments *(note 10)*

Commitments and contingencies *(note 12)*

The accompanying notes are an integral part of the combined financial statements

For the Board of Directors,

MICHAEL SABIA **A. MICHEL LAVIGNE**

Combined statement of income and changes in net assets

For years ended December 31

(In millions of dollars)	2011	2010
Investment income *(note 7A)*	**5,232**	4,945
Less:		
Operating expenses *(note 8)*	**269**	257
Expenses related to repositioning of information technology and write-offs of intangible assets	**–**	34
Net investment income	**4,963**	4,654
Gains (losses) on the sale of investments *(note 7C)*	**(482)**	1,613
Total realized income	**4,481**	6,267
Unrealized increases in value of investments and liabilities related to investments *(note 7D)*	**1,764**	11,792
Net investment results	**6,245**	18,059
Depositors' net deposits	**1,477**	2,423
Other changes in non-controlling interests *(note 6B)*	**223**	(113)
Increase in combined net assets	**7,945**	20,369
Combined net assets, beginning of year	**153,517**	133,148
Combined net assets, end of year	**161,462**	153,517
Attributable to depositors		
Net investment results *(note 7E)*	**6,245**	18,059
Less:		
Net investment results attributable to non-controlling interests *(note 7E)*	**499**	328
Net investment results attributable to depositors *(note 7E)*	**5,746**	17,731
Depositors' net deposits	**1,477**	2,423
Increase in depositors' net holdings	**7,223**	20,154
Depositors' net holdings, beginning of year	**151,742**	131,588
Depositors' net holdings, end of year	**158,965**	151,742

The accompanying notes are an integral part of the combined financial statements

Combined funds notes to financial statements

As at December 31, 2011

01 CONSTITUTION AND OPERATIONS

The Caisse de dépôt et placement du Québec (the "Caisse"), a legal person established in the public interest within the meaning of the *Civil Code*, is governed by the Act respecting *the Caisse de dépôt et placement du Québec (R.S.Q., chapter C-2)* (the "Act"). It receives all funds whose deposit is provided under the Act. Pursuant to the federal and provincial income tax acts, the Caisse is not subject to income taxes.

COMBINED FINANCIAL STATEMENTS

The combined financial statements comprise the accounts of the subsidiaries controlled by the Caisse, the General Fund, the individual funds and the specialized portfolios.

GENERAL FUND (CONSOLIDATED STATEMENTS)

The General Fund comprises all treasury operations (management of demand and term deposits, and corporate financing of the Caisse).

INDIVIDUAL FUNDS

The individual funds are comprised of diversified investments, and each fund has only one depositor that exclusively makes participation deposits therein. The individual funds are for the use of the following depositors:

Fund 300: Québec Pension Plan Fund, administered by the Régie des rentes du Québec;

Fund 301: Government and Public Employees Retirement Plan, administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 302: Pension Plan of Management Personnel, administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 303: Individual plans administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 305: Pension Plan for Elected Municipal Officers, administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 306: Régime complémentaire de rentes des techniciens ambulanciers/paramédics et des services préhospitaliers d'urgence, administered by Aon Conseil;

Fund 307: Fonds d'assurance automobile du Québec, administered by the Société de l'assurance automobile du Québec;

Fund 311: Supplemental Pension Plan for employees of the Québec construction industry – general account – administered by the Commission de la construction du Québec;

Fund 312: Supplemental Pension Plan for employees of the Québec construction industry – retirees account – administered by the Commission de la construction du Québec;

Fund 313: Supplemental Pension Plan for employees of the Québec construction industry – supplementary account – administered by the Commission de la construction du Québec;

Fund 314: Deposit insurance fund, administered by the Autorité des marchés financiers;

Fund 315: Compte dédié (previously Fonds d'assurance-prêts agricoles et forestiers) administered by La Financière agricole du Québec;

Fund 316: Retirement Plans Sinking Fund – RREGOP, administered by the ministère des Finances, Government of Québec;

Fund 317: Retirement Plans Sinking Fund – PPMP, administered by the ministère des Finances, Government of Québec;

Fund 318: Fonds d'amortissement des autres régimes de retraite, administered by the ministère des Finances, Government of Québec;

Fund 326: Crop Insurance Fund, administered by La Financière agricole du Québec;

Fund 327: Fédération des producteurs de bovins du Québec (inactive since September 1, 2010);

Fund 328: Survivor 's pension plan, administered by the Secrétariat du Conseil du trésor, Government of Québec;

Fund 329: Fonds d'assurance-garantie, administered by the Régie des marchés agricoles et alimentaires du Québec;

CONSTITUTION AND OPERATIONS (cont.)

Fund 330: Fonds de la santé et de la sécurité du travail, administered by the Commission de la santé et de la sécurité du travail;

Fund 332: Fonds des cautionnements des agents de voyages – cautionnements individuels – administered by the Office de la protection du consommateur;

Fund 333: Fonds d'indemnisation des clients des agents de voyages, administered by the Office de la protection du consommateur;

Fund 341: Education and Good Governance Fund – Cash fund, administered by the Autorité des marchés financiers;

Fund 342: Régime de retraite de l'Université du Québec administered by the Comité de retraite du Régime de retraite de l'Université du Québec;

Fund 343: Parental Insurance Fund, administered by the Conseil de gestion de l'assurance parentale;

Fund 347: Régime de retraite du personnel des CPE et des garderies privées conventionnées du Québec, administered by Aon Conseil;

Fund 348: Régime complémentaire de retraite des employés syndiqués de la Commission de la construction du Québec administered by the Comité de retraite du Régime complémentaire de retraite des employés syndiqués de la CCQ (inactive since January 1, 2011);

Fund 351: Generations Fund, administered by the ministère des Finances, Government of Québec;

Fund 353: Superannuation Plan for the Members of the Sûreté du Québec – caisse participants – administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 354: Superannuation Plan for the Members of the Sûreté du Québec – caisse employeurs – administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 361: Régime de rentes pour le personnel non enseignant de la Commission des écoles catholiques de Montréal, administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 362: Régime de retraite pour certains employés de la Commission scolaire de la Capitale, administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 363: Régime de retraite des employés de la Ville de Laval, administered by the Comité du Régime de retraite des employés de la Ville de Laval;

Fund 367: Fonds d'information sur le territoire, administered by the ministère des Finances, Government of Québec (created October 1, 2011);

Fund 368: Education And Good Governance Fund – Capitalized fund – administered by the Autorité des marchés financiers;

Fund 369: Accumulated Sick Leave Fund, administered by the ministère des Finances, Government of Québec; and

Fund 373: Retirement Plan for Active Members of the Centre hospitalier Côte-des-Neiges, administered by the Commission administrative des régimes de retraite et d'assurances (created July 1, 2010).

SPECIALIZED PORTFOLIOS

The specialized portfolios are pooled funds for participation deposits of the various funds. The specialized portfolios are the following:

- Real Estate (710) (consolidated statements)
- Canadian Equity (720)
- Foreign Equity – Hedged (730) (dissolved April 1, 2010)
- EAFE Equity (Europe, Australasia and Far East) (730) (created April 1, 2010)
- U.S. Equity – Hedged (731) (dissolved April 1, 2010)
- U.S. Equity (731) (created April 1, 2010)
- Emerging Markets Equity (732)
- Foreign Equity – Unhedged (733) (dissolved April 1, 2010)
- U.S. Equity – Unhedged (734) (dissolved April 1, 2010)
- Global Equity (735) (created April 1, 2010)
- Short-term Investments (740)
- Real Estate Debt (750) (consolidated statements)
- Bonds (760)
- Québec International (761)
- Real Return Bonds (762)
- Commodity Financial Instruments (763) (dissolved December 1, 2010)
- Long-term Bonds (764)
- Hedge Funds (770) (consolidated statements)
- Asset Allocation (771)
- ABTNs (772)
- Private Equity (780) (consolidated statements)
- Investments and Infrastructure (781) (consolidated statements) (dissolved July 1, 2010)
- Infrastructure (782) (consolidated statements) (created July 1, 2010)

02
ACCOUNTING POLICIES

A) PRESENTATION

The combined financial statements of the Caisse are prepared in accordance with Canadian generally accepted accounting principles. The Accounting Standards Board authorized a postponement of the application of International Financial Reporting Standards until 2014 for investment companies. The Caisse is considered an investment company pursuant to Accounting Guideline AcG-18, "Investment Companies," of Part V of the Handbook of the Canadian Institute of Chartered Accountants (CICA). Accordingly, all the investments of the Caisse as well as liabilities related to investments are presented at fair value with all fair value variations recognized in the results.

The Caisse consolidates its subsidiaries when they do not meet some of the conditions provided in AcG-18. All transactions and balances between related parties have been eliminated. The summary financial statements for the specialized portfolios are found in the section "Supplementary Information."

The preparation of the financial statements requires that management make estimates and assumptions, which have an impact on determination of the fair value of assets and liabilities as well as revenues and expenses during the financial year covered by the combined financial statements. Actual results may differ from such estimates.

A statement of cash flows is not presented, as it would provide no further useful information for the comprehension of cash flows during the year.

B) CHANGES TO ACCOUNTING POLICIES

The CICA has published Section 1582, "Business Combinations," Section 1601, "Consolidated Financial Statements," and Section 1602, "Non-controlling Interests," which apply to the fiscal years starting January 1, 2011. These sections require, among other things, that non-controlling interests be presented as a separate item in combined net assets rather than as liabilities and that they no longer be applied against net investment results because they are presented separately in combined net assets. Adoption of these sections has no effect on depositors' net holdings, but has given rise to reclassification of non-controlling interests (see notes 6B and 7E).

C) INVESTMENTS AND RELATED OPERATIONS

Investments and related assets and liabilities are accounted for at fair value, which is the estimated exchange value that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act, established at year-end.

Advances to depositors, investment income, accrued and receivable, other assets and other liabilities presented separately are valued at the cost which approximates fair value given their short-term maturity.

Transaction costs that are directly attributable to the acquisition and sale of investments are included in income and applied against Gains (losses) on the sale of investments. Transaction costs include commissions, stock exchange fees and professional and legal fees related to investment operations.

FIXED-INCOME SECURITIES

Fixed-income securities comprise short-term investments, bonds, asset-backed term notes (ABTNs), mortgages, commercial paper payable, term notes, mortgage loans payable and other loans payable. Acquisitions and sales of fixed-income securities are recorded at the transaction date, except for mortgages, which are recorded at the settlement date.

I) VALUATION METHOD

The fair value of fixed-income securities with the exception of mortgages is determined by the market price, when such a value is available. When a market price is not available, the fair value of the securities is established according to valuation methods used in capital markets, such as discounting of future cash flows, or according to similar transactions on an arm's length basis. These valuations are supported by observable or non-observable input data, such as interest rate yield curves, credit spreads or discount rates. The valuation method for ABTNs is discussed in note 3E.

The fair value of mortgages is determined from the present value of future contractual cash flows at the market interest rate. The rate is that which could be obtained for loans or securities with similar conditions and maturities. Where the timing of future cash flows cannot be estimated in a reasonably reliable fashion, the fair value corresponds either to the fair value of any collateral, less expected realization costs and any amount legally owed to borrowers, or to the observable market price for the mortgages.

The fair value of most fixed-income securities is reviewed biannually by independent external firms.

The valuation methods are applied on a consistent basis.

ACCOUNTING POLICIES (cont.)

II) INVESTMENT INCOME AND GAINS (LOSSES) ON THE SALE OF INVESTMENTS

Investment income from fixed-income securities includes amortization of the premium or the discount, which makes it possible to maintain a constant effective yield until maturity. Income from mortgages is reduced by operation expenses and financial costs of commercial mortgage-backed securities (CMBS) and is recorded under the item Investment income – Fixed-income securities.

Gains (losses) on the sale of investments represent the difference between the amortized cost and the net realizable value on the sale of investments. The amortized cost corresponds to the acquisition cost adjusted to reflect amortization of the premium or the discount.

VARIABLE-INCOME SECURITIES

Variable-income securities comprise equities and convertible securities, investment funds as well as real estate holdings. Acquisitions and sales of equities and convertible securities are recorded at the transaction date, whereas acquisitions and sales of real estate holdings are recorded at the settlement date.

I) VALUATION METHOD

The fair value of listed equities and convertible securities is determined from prices on major stock exchanges. For unlisted equities and convertible securities, prices are provided by recognized financial institutions or valuations are made according to commonly used valuation methods, such as the earnings multiples of comparable listed companies or discounting of cash flows, or on the basis of similar transactions on an arm's length basis. These valuations are supported by observable or non-observable input data, such as EBITDA multiples, price/earnings multiples, price/book value ratios, discount rates and future cash flows. The valuations of unlisted equities and convertible securities are reviewed biannually by a valuation committee made up of independent experts or by independent external firms.

The fair value of investment funds is determined from the fair value provided by the general partner or the administrator, in accordance with commonly used valuation methods.

Real estate holdings include partial or full ownership of income properties through interests in a company or a partnership. The fair value of income properties included in real estate holdings is determined and certified biannually by external, recognized and independent chartered real estate appraisers. The valuation techniques used for income properties are based mainly on three recognized methodologies: discounting of cash flows at the market rate, comparison with recent similar market transactions and capitalization of earnings. These valuations are supported by observable or non-observable input data, such as leases, operating expenses, rates of return and discount rates. The valuations are established in accordance with commonly used professional valuation standards.

The valuation methods are applied on a consistent basis.

II) INVESTMENT INCOME AND GAINS (LOSSES) ON THE SALE OF INVESTMENTS

Dividend income is recognized when the Caisse obtains the right to the dividend, generally on the ex-dividend date. Income from real estate holdings is reduced by operating expenses, operation expenses and loan financial expenses, and is recorded under the item Investment income – Variable-income securities.

Gains (losses) on the sale of investments represent the difference between the cost and the net realizable value on the sale of investments. The cost of investments corresponds to the acquisition cost, with the exception of the cost of investments in joint ventures, which are recorded on an equity basis.

DERIVATIVE FINANCIAL INSTRUMENTS

In managing its investments, the Caisse conducts transactions involving various derivative financial instruments to manage the risks associated with exchange rate, interest rate and market fluctuations.

Derivative financial instruments whose fair value is favourable are recorded under the item Investments at fair value, whereas those whose fair value is unfavourable are recorded under the item Liabilities related to investments.

ACCOUNTING POLICIES (cont.)

I) VALUATION METHOD

For over-the-counter derivative financial instruments, prices are provided by recognized financial institutions or valuations are made from similar transactions on an arm's length basis or with recognized, commonly used models. The models used include discounting of future cash flows at the current rate of return and the Black-Scholes model. These models require the use of assumptions regarding the amount and timing of future cash flows and the current rate of return. The assumptions are prepared with observable and non-observable input data, such as interest rate yield curves, credit spreads and foreign exchange rates as well as the volatility and correlation of equity prices, commodity prices and interest rates. The fair value estimates of most over-the-counter derivative financial instruments are reviewed biannually by independent external firms. The fair value of listed derivative financial instruments, if any, is determined from prices on major stock exchanges.

The valuation methods are applied on a consistent basis.

II) INVESTMENT INCOME AND GAINS (LOSSES) ON THE SALE OF INVESTMENTS

Investment income as well as gains (losses) on derivative financial instruments is included with investment income and gains (losses) on the sale of investments depending on the underlying investments.

SECURITIES ACQUIRED UNDER REVERSE REPURCHASE AGREEMENTS

The Caisse conducts securities-borrowing operations involving short-term investments and bonds to cover short sales or to generate additional income. These securities-borrowing operations are recorded in Securities acquired under reverse repurchase agreements under the item Investments at fair value. Interest earned on reverse repurchase agreements is recorded as interest income under the item Investment income – Fixed-income securities.

SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

The Caisse conducts securities-lending operations involving short-term investments and bonds to generate cash flow liquidity or additional income. These securities-lending operations are recorded in Securities sold under repurchase agreements under the item Liabilities related to investments. Interest paid on repurchase agreements is applied against Investment income – Fixed-income securities.

SHORT SELLING OF SECURITIES

Short selling of securities represents the commitment by the Caisse to purchase securities from third parties to cover its positions. Interest expenses related to commitments involving short selling of short-term investments and bonds are recorded under Investment income – Fixed-income securities, whereas costs related to commitments involving short selling of equities are recorded under Investment income – Variable-income securities.

Gains (losses) on commitments related to short selling of short-term investments and bonds are recorded under the item Gains (losses) on the sale of investments – Fixed-income securities, whereas those related to short selling of equities are recorded under the item Gains (losses) on the sale investments – Variable-income securities.

LENDING AND BORROWING OF SECURITIES

The Caisse conducts securities-lending and -borrowing operations involving equities to cover short selling or to generate additional income. Such transactions are not derecognized or recorded in net assets because the assigner retains a right to the transferred shares. Investment income from lending of securities is included under the item Investment income – Variable-income securities.

HIERARCHY OF FAIR VALUE

The Caisse's financial instruments are classified according to the following hierarchy:

- Level 1: Calculation of the fair value of the instrument is based on prices (not adjusted) quoted on active markets for identical assets or liabilities.
- Level 2: Calculation of the fair value of the instrument is based on data other than the quoted prices contemplated in level 1, which are observable directly (in the form of prices) or indirectly (determined from prices). This level includes instruments whose valuation is based on prices quoted on markets that are not active for identical instruments and instruments whose valuation is based on prices observed for similar instruments as well as valuation techniques based on assumptions that take into account observable market data.
- Level 3: Calculation of the fair value of the instrument uses data that are not based on observable market data (non-observable data). This level includes instruments whose valuation is based on prices observed for similar instruments, adjusted to reflect the differences between the instruments being valued and the available market data. This level also includes instruments whose valuation is based on valuation techniques using assumptions that take into account market data that are observable but are adjusted significantly to reflect the specific characteristics of the instrument being valued.

ACCOUNTING POLICIES (cont.)

The classification of financial instruments in the levels of the hierarchy is established at the time of the initial valuation of the instrument and reviewed on each subsequent valuation date. Transfers between the hierarchical levels are measured at fair value at the start of each year.

Quantitative information on the hierarchy of fair value is given in note 3F.

D) ADMINISTERED PROPERTY AND PROPERTIES UNDER MANAGEMENT

The Caisse and its subsidiaries administer and manage properties entrusted to them by clients and on their behalf. These properties are not included in the Combined statement of net assets of the Caisse. The Caisse and its subsidiaries receive fees in return for such portfolio management services and administrative services, which include the administration of real estate properties and transferred mortgages.

E) FOREIGN CURRENCY TRANSLATION

The fair value of investments as well as any other assets and liabilities denominated in foreign currencies is translated into Canadian dollars at the rate of exchange prevailing at year-end.

To present in the Combined statement of income and changes in net assets the amount of gains (losses) on the sale of investments or unrealized gains (losses), the cost of investments in equities and that of real estate holdings from integrated foreign operations and the amortized cost of investments in short-term investments, bonds and mortgages are translated at the rate of exchange prevailing on the acquisition date. The cost of investments from self-sustaining foreign operations is translated at the rate prevailing at year-end.

Income is translated at the rate of exchange prevailing on the transaction date, with the exception of income from the specialized Real Estate portfolio, which is translated at the average rate for the year.

F) TRANSFERS OF RECEIVABLES

The Caisse occasionally securitizes or transfers mortgages by selling them directly to companies or through a conduit, which subsequently issues securities to investors.

Such transactions are recorded as sales where the Caisse is deemed to have surrendered control over such assets and to have received consideration other than beneficial interests in the transferred assets, in accordance with Accounting Guideline AcG-12 "Transfers of Receivables." At the time of securitization or transfer, no beneficial interest in the mortgages is retained. Any gains or losses deriving from such transactions are recorded under Gains (losses) on the sale of investments – Mortgages and Bonds.

Companies under common control usually continue to service transferred loans. Since servicing fees are market-based, no servicing assets or liabilities are recorded at the date of transfer.

G) OPERATING EXPENSES

Operating expenses represent all expenses related to portfolio management and administration, with the exception of those related to external management. Operating expenses are recorded under a separate line item in the Combined statement of income and changes in net assets. Expenses related to management of the specialized Real Estate and Real Estate Debt portfolios are included in operating expenses. Expenses related to the real estate and real estate debt subsidiaries are deducted from real estate holdings investment income and mortgages investment income, respectively.

H) EXTERNAL MANAGEMENT FEES

External management fees represent amounts paid to external financial institutions, principally institutional fund managers active on international stock markets, for the management of Caisse funds on behalf of the Caisse. Basic external management fees and management fees related to the performance of external managers are deducted from Investment income and Gains (losses) on the sale of investments, respectively.

03
INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS

A) INVESTMENTS

(in millions of dollars)		2011		2010
	Fair value	**Cost**	Fair value	Cost
Fixed-income securities				
Short-term investments				
Canadian	**515**	**549**	2,357	2,370
Foreign	**1,063**	**1,446**	1,614	1,802
	1,598	**1,995**	3,971	4,172
Bonds				
Issued or guaranteed by:				
Canadian Government	**16,165**	**15,276**	21,637	21,149
Province of Québec	**9,507**	**8,448**	8,801	8,305
Other Canadian provinces	**1,499**	**1,337**	1,658	1,586
Municipalities and other Canadian agencies	**1,481**	**1,416**	1,280	1,247
Canadian government corporations	**13,056**	**12,104**	11,998	11,322
U.S. government	**1,174**	**1,172**	1,379	1,641
Other foreign governments	**308**	**300**	17	17
Mortgage securities				
Canadian	**187**	**178**	213	230
Foreign	**–**	**116**	68	314
Canadian corporations	**10,605**	**10,178**	8,831	8,906
Foreign corporations	**1,978**	**2,216**	1,678	2,197
Inflation-indexed securities				
Canadian	**1,318**	**1,139**	975	895
Foreign	**100**	**105**	–	–
	57,378	**53,985**	58,535	57,809
ABTNs *(note 3E)*	**7,901**	**11,785**	7,850	11,910
Mortgages				
Canadian	**6,754**	**6,417**	5,886	5,780
Foreign	**748**	**858**	1,667	2,932
	7,502	**7,275**	7,553	8,712
Total fixed-income securities	**74,379**	**75,040**	77,909	82,603
Variable-income securities				
Equities and convertible securities				
Canadian	**17,082**	**16,227**	17,180	14,640
U.S.	**27,281**	**28,334**	17,379	20,230
Foreign and emerging markets	**29,290**	**31,721**	26,398	25,496
Hedge funds	**3,088**	**3,141**	2,964	3,002
	76,741	**79,423**	63,921	63,368
Real estate holdings				
Canadian	**13,501**	**9,688**	12,880	10,482
Foreign	**8,532**	**9,344**	8,610	9,816
	22,033	**19,032**	21,490	20,298
Total variable-income securities	**98,774**	**98,455**	85,411	83,666

INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

(in millions of dollars)	2011		2010	
	Fair value	**Cost**	Fair value	Cost
Amounts receivable with respect to investments				
Securities acquired under reverse repurchase agreements				
Canadian	**6,056**	**6,056**	8,761	8,762
Foreign	**1,919**	**1,926**	1,007	1,017
Amount pertaining to derivative financial instruments				
Canadian	**2,957**	**1,171**	2,132	1,157
Foreign	**1,521**	**117**	3,156	120
	12,453	**9,270**	15,056	11,056
Total investments	**185,606**	**182,765**	178,376	177,325

B) LIABILITIES RELATED TO INVESTMENTS

(in millions of dollars)	2011		2010	
	Fair value	**Cost**	Fair value	Cost
Securities sold under repurchase agreements				
Canadian	**670**	**670**	338	338
Foreign	**–**	**–**	629	632
Commercial paper payable				
Canadian	**1,017**	**1,017**	1,017	1,017
Term notes				
Canadian	**2,110**	**1,998**	2,044	1,998
Foreign	**6,662**	**6,288**	6,051	6,287
Short selling of securities				
Canadian	**6,187**	**5,842**	6,267	5,444
Foreign	**3,648**	**3,575**	2,498	2,543
Mortgage loans payable				
Canadian	**497**	**458**	679	635
Foreign	**1,720**	**1,758**	2,156	2,208
Other loans payable				
Canadian	**1,978**	**2,003**	1,710	1,816
Foreign	**1,260**	**1,264**	1,283	1,222
Amount pertaining to derivative financial instruments				
Canadian	**1,215**	**5**	470	–
Foreign	**1,590**	**93**	2,665	110
	28,554	**24,971**	27,807	24,250

Term notes are redeemable at maturity, have an optional prepayment clause at the option of the issuer and are guaranteed by the assets of the Caisse.

Mortgage loans are repayable half-yearly, quarterly, monthly or at maturity and are guaranteed by real estate holdings. Some mortgage loans may also be guaranteed by cash and others have a redemption clause.

Most of the other loans payable are repayable at maturity. Those related to investments in ABTNs have a prepayment clause prorated to net cash flows received on investments in ABTNs and are guaranteed by them.

The fair value of the real estate holdings that guarantee the mortgage loans and some other loans payable is $5,851 million ($6,221 million in 2010).

INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

C) JOINT VENTURES

As at December 31, the item Investments – Real estate holdings includes investments in joint ventures recorded at fair value. The details of these investments are as follows:

(in millions of dollars)	2011	2010
Investments in joint ventures	**8,939**	8,156
Real estate holdings	**13,409**	12,745
Mortgages	–	2
Short-term investments	–	6
Investment income, accrued and receivable	**6**	78
Other assets	**427**	388
	13,842	13,219
Mortgage loans payable	**4,382**	4,400
Other loans payable	–	36
Derivative financial instruments	**1**	2
Other liabilities	**505**	569
Non-controlling interests	**15**	56
	4,903	5,063

D) BREAKDOWN OF NET HOLDINGS

The following table gives a summary of the Caisse's net holdings as at December 31:

(in millions of dollars)	2011	2010
Investments *(note 3A)*	**185,606**	178,376
Other assets	**5,682**	4,821
Total assets	**191,288**	183,197
Liabilities related to investments *(note 3B)*	**28,554**	27,807
Other liabilities	**1,272**	1,873
Non-controlling interests *(note 6B)*	**2,497**	1,775
Depositors' net holdings *(note 6A)*	**158,965**	151,742

INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

The following table gives the breakdown of net holdings at fair value according to the specialized portfolios available to depositors as at December 31:

(in millions of dollars)	2011	2010
Fixed Income		
Short-term investments	**6,762**	3,376
Bonds	**41,600**	40,038
Long-term Bonds	**3,758**	3,598
Real Estate Debt	**6,680**	8,607
	58,800	55,619
Inflation-sensitive Investments		
Real Return Bonds	**1,288**	939
Infrastructure	**5,751**	4,333
Real Estate	**18,205**	16,771
	25,244	22,043
Equities		
Canadian Equity	**18,564**	19,312
Global Equity	**10,855**	5,873
Québec International	**4,547**	8,442
U.S. Equity	**8,120**	5,761
EAFE Equity	**9,102**	9,733
Emerging Markets Equity	**5,886**	5,803
Private Equity	**15,746**	17,468
	72,820	72,392
Other Investments		
Hedge Funds	**3,270**	3,303
Asset Allocation	**1,221**	633
ABTNs	**(2,520)**	(2,613)
	1,971	1,323
Overlay strategies and treasury operations	**130**	365
Depositors' net holdings	**158,965**	151,742

INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

E) ABTNs AND RELATED FINANCIAL INSTRUMENTS

Asset-backed term notes (ABTNs) represent debt backed by a variety of financial instruments. The underlying instruments are essentially credit default swaps as well as assets given as collateral for MAV 1 and MAV 2, while MAV 3 contains traditional assets, such as residential and commercial mortgage debt. In addition, the Caisse uses derivative financial instruments, such as interest rate swaps and credit default swaps, to obtain an economic hedge in order to reduce the risk of loss inherent in a fluctuation of the fair value of the ABTNs as well as eventual collateral calls.

The ABTNs as well as other related financial instruments consist of the following as at December 31:

(in millions of dollars)		2011				2010
	Fair value	**Unrealized increases (decreases) in value**	**Cost**	Fair value	Unrealized increases (decreases) in value	Cost
Investments						
MAV 1[1]	**7,165**	**(2,689)**	**9,874**	7,412	(2,507)	9,919
MAV 2[1]	**116**	**(3)**	**119**	116	(3)	119
MAV 3[1]	**195**	**(180)**	**375**	280	(175)	455
Funding facility	**(522)**	**(522)**	**–**	(449)	(449)	–
Subtotal	**6,974**	**(3,394)**	**10,368**	7,359	(3,134)	10,493
ABTNs excluded from the restructuring agreement	**927**	**(490)**	**1,417**	491	(926)	1,417
Total ABTNs	**7,901**	**(3,884)**	**11,785**	7,850	(4,060)	11,910
Amount pertaining to derivative financial instruments[2]	**1,031**	**(109)**	**1,140**	1,092	(48)	1,140
Total investments	**8,932**	**(3,993)**	**12,925**	8,942	(4,108)	13,050
Liabilities related to investments[2]	**1,778**	**11**	**1,767**	1,528	16	1,512
	7,154	**(4,004)**	**11,158**	7,414	(4,124)	11,538

1. "Master asset vehicles," or "MAV."
2. Included under the items in notes 3A and B.

MAV 1 ABTNs and certain ABTNs excluded from the restructuring agreement consist essentially of credit default swaps. The fair value of the credit default swaps is established with valuation techniques based as much as possible on observable market data, such as credit spreads, correlation factors and an illiquidity premium, which is calculated from the spread between the bid and ask prices for similar financial instruments in the market. For the other ABTNs, the Caisse has established fair values using a valuation technique based on a financial model whose assumptions use as much as possible observable market data, such as interest rates and credit quality. Moreover, a favourable court judgment was rendered in the fall of 2011 in respect of litigation involving an ABTN excluded from the restructuring agreement. After an analysis of the conclusions of the judgment, the Caisse considered this development favourable in determining the fair value of the related investment.

As at December 31, 2011, the funding facility, which represents commitments in respect of MAV 1, totals $6,167 million ($6,167 million in 2010) and matures in July 2017. The Caisse establishes the fair value of this funding facility by applying a valuation technique based on CDX.IG index tranches plus a financing premium.

A 5.31% (3.45% in 2010) downward variation of credit spreads would involve an increase in the fair value of the ABTNs net of the economic hedge of approximately $62 million ($43 million in 2010). A 5.31% (3.45% in 2010) upward variation, however, would result in a decrease of approximately $68 million in the fair value ($45 million in 2010).

INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

F) HIERARCHY OF FAIR VALUE

The following tables summarize the allocation of the fair value of the investments and the liabilities related to investments among the three levels of the hierarchy as at December 31:

(in millions of dollars)				2011
	Level 1	Level 2	Level 3	Total
Investments				
Fixed-income securities				
Short-term investments	–	1,387	211	1,598
Bonds	–	54,169	3,209	57,378
ABTNs	–	–	7,901	7,901
Mortgages	–	6,139	1,363	7,502
Total fixed-income securities	–	61,695	12,684	74,379
Variable-income securities				
Equities and convertible securities	49,096	2,118	25,527	76,741
Real estate holdings[1]	–	–	22,033	22,033
Total variable-income securities	49,096	2,118	47,560	98,774
Amounts receivable with respect to investments				
Securities acquired under reverse repurchase agreements	–	7,975	–	7,975
Amount pertaining to derivative financial instruments	38	3,378	1,062	4,478
	49,134	75,166	61,306	185,606
Liabilities related to investments				
Securities sold under repurchase agreements	–	670	–	670
Commercial paper payable	–	1,017	–	1,017
Term notes	–	8,772	–	8,772
Short selling of securities	7,226	2,549	60	9,835
Mortgage loans payable	–	497	1,720	2,217
Other loans payable	–	3,229	9	3,238
Amount pertaining to derivative financial instruments	37	2,680	88	2,805
	7,263	19,414	1,877	28,554

1. Investments in real estate holdings include partial or full ownership of income properties through interests in a company or a partnership.

INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

(in millions of dollars)				2010
	Level 1	Level 2	Level 3	Total
Investments				
Fixed-income securities				
Short-term investments	–	3,714	257	3,971
Bonds	–	56,021	2,514	58,535
ABTNs	–	–	7,850	7,850
Mortgages	–	4,543	3,010	7,553
Total fixed-income securities	–	64,278	13,631	77,909
Variable-income securities				
Equities and convertible securities	35,917	3,363	24,641	63,921
Real estate holdings[1]	–	–	21,490	21,490
Total variable-income securities	35,917	3,363	46,131	85,411
Amounts receivable with respect to investments				
Securities acquired under reverse repurchase agreements	–	9,768	–	9,768
Amount pertaining to derivative financial instruments	13	4,146	1,129	5,288
	35,930	81,555	60,891	178,376
Liabilities related to investments				
Securities sold under repurchase agreements	–	967	–	967
Commercial paper payable	–	1,017	–	1,017
Term notes	–	8,095	–	8,095
Short selling of securities	6,979	1,694	92	8,765
Mortgage loans payable	–	680	2,155	2,835
Other loans payable	–	2,980	13	2,993
Amount pertaining to derivative financial instruments	37	2,993	105	3,135
	7,016	18,426	2,365	27,807

1. Investments in real estate holdings include partial or full ownership of income properties through interests in a company or a partnership.

INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

LEVEL 3: RECONCILIATION BETWEEN OPENING AND CLOSING BALANCES

For the financial instruments classified in level 3 of the hierarchy, the details of the reconciliation between the opening and closing balances are as follows:

(In millions of dollars) 2011

	Opening balance	Total gains (losses) recorded in results[1]	Purchases	Sales	Issuance	Settlement	Net transfers to and from level 3	Closing balance	Total gains (losses) attributable to investments held at year-end, recorded in results[2]
Short-term investments	257	40	2,261	(326)	–	(2,115)	94	211	(149)
Bonds	2,514	137	101	(166)	906	(166)	(117)	3,209	172
ABTNs	7,850	151	–	–	–	(100)	–	7,901	175
Mortgages	3,010	160	–	(1,037)	601	(992)	(379)	1,363	53
Equities and convertible securities	24,641	2,500	3,269	(4,794)	–	–	(69)	25,527	2,144
Real estate holdings	21,490	1,660	1,076	(2,193)	–	–	–	22,033	1,592
Net amount pertaining to derivative financial instruments[3]	1,024	(84)	14	33	–	1	(14)	974	(140)
Short selling of securities	(92)	(6)	53	–	–	–	(15)	(60)	(8)
Mortgage loans payable	(2,155)	(4)	–	–	(6)	445	–	(1,720)	24
Other loans payable	(13)	–	–	–	–	4	–	(9)	–

1. Recorded under the items Investment income, Gains (losses) on the sale of investments and Unrealized increases (decreases) in value.
2. Recorded under the items Investment income and Unrealized increases (decreases) in value.
3. Derivative assets and derivative liabilities are recorded on a net basis in the reconciliation between opening and closing balances.

INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

(in millions of dollars) 2010

	Opening balance	Total gains (losses) recorded in results[1]	Purchases	Sales	Issuance	Settlement	Net transfers to and from level 3	Closing balance	Total gains (losses) attributable to investments held at year-end, recorded in results[2]
Short-term investments	1,028	(516)	799	(17)	11	(1,048)	–	257	(124)
Bonds	2,793	(454)	829	(1,084)	400	(262)	292	2,514	(75)
ABTNs	7,249	775	–	–	–	(174)	–	7,850	1,042
Mortgages	5,064	499	–	(724)	286	(1,781)	(334)	3,010	196
Equities and convertible securities	22,870	2,608	2,774	(3,524)	–	–	(87)	24,641	864
Real estate holdings	19,942	1,197	1,592	(1,241)	–	–	–	21,490	969
Net amount pertaining to derivative financial instruments[3]	13	(312)	1,142	(4)	–	185	–	1,024	(104)
Short selling of securities	(272)	(28)	124	(102)	–	15	171	(92)	(1)
Mortgage loans payable	(2,900)	266	–	–	(10)	489	–	(2,155)	253
Other loans payable	(313)	(11)	–	–	(15)	326	–	(13)	361

1. Recorded under the items Investment income, Gains (losses) on the sale of investments and Unrealized increases (decreases) in value.
2. Recorded under the items Investment income and Unrealized increases (decreases) in value.
3. Derivative assets and derivative liabilities are recorded on a net basis in the reconciliation between opening and closing balances.

LEVEL 3: VALUATION AT FAIR VALUE BASED ON REASONABLE ALTERNATIVE ASSUMPTIONS

In certain cases, the assumptions used in the valuation techniques are based on non-observable data or observable market data adjusted significantly to reflect the specific characteristics of the instrument being valued. Although the Caisse believes that its valuations at fair value are appropriate, the use of reasonably possible alternative assumptions could result in different fair values. It is possible that different entities will arrive at different valuations of the fair value of the same financial instrument on the same measurement date. Even so, the valuation techniques and input data used by such entities can meet the objective of fair value measurement. The fact that different valuations of fair value exist reflects the judgment and assumptions applied, as well as the uncertainty surrounding fair value measurement of instruments.

The analysis that follows shows the sensitivity of the valuations to reasonable alternative assumptions of the non-observable data. Equities and convertible securities are sensitive mainly to the EBITDA multiple and the discount rate used in the valuation, which may reasonably range from 6.0 to 10.0 and from 8.0% to 14.0%, respectively. Mortgage loans payable are sensitive mainly to the credit spread, which may reasonably vary by about 1.0%. The fair value of real estate holdings is sensitive mainly to the capitalization rate or the discount rate used in the valuation of the property, which may reasonably vary by about 0.3%. The fair value of the investment funds for which the Caisse does not have access to information on the underlying investment is based on the fair value provided by the general partner or the external manager. Accordingly, given that no additional information indicates that it is necessary to adjust such fair value, no other reasonably possible assumptions can be used.

Substitution of reasonable alternative assumptions for the main assumptions would result in an increase of approximately $776 million ($839 million in 2010) or a decrease of approximately $1,306 million ($1,077 million in 2010) in the total fair value of the level 3 instruments, excluding ABTNs, real estate investments and investment funds. The impact of such substitution on the fair value of the ABTNs is described in note 3E.

04
OTHER ASSETS

(in millions of dollars)	2011	2010
Cash	**2,999**	2,646
Accounts receivable	**161**	156
Fixed assets	**133**	120
	3,293	2,922

05
OTHER LIABILITIES

(in millions of dollars)	2011	2010
Interest payable on derivative financial instruments	**89**	248
Investment income, accrued and payable	**156**	178
Income tax liabilities, payable and future	**242**	253
Other liabilities	**675**	631
	1,162	1,310

06
DEPOSITORS' NET HOLDINGS AND NON-CONTROLLING INTERESTS

A) DEPOSITORS' NET HOLDINGS

Demand and term deposits bear interest at variable and fixed rates, respectively, and constitute indebtedness on the part of the Caisse toward the depositors. The average annual rates paid on demand and term deposits are 1.0% and 1.7%, respectively (0.6% and 0.8% in 2010).

During the year, the Caisse paid $3 million ($3 million in 2010) of interest on both demand and term deposits.

Participation deposits are expressed in units. Each unit gives its holder a proportionate share in the net equity and the net income of a particular fund. At the end of each monthly period for the General Fund and the individual funds, the net investment income and the gains (losses) on the sale of investments are allocated to participation deposit holders. At the opening of the following period, the amounts allocated are paid out to the depositors' demand deposit accounts. Generally, the balance of demand deposits is reinvested in participation deposits at the opening of each monthly period as a function of the depositors' investment policies. The number of issued units of participation deposits depends on fair value determined at the end of the previous monthly period.

During the year, the Caisse paid $5,966 million ($2,660 million in 2010) in net income to participation deposit holders.

DEPOSITORS' NET HOLDINGS AND NON-CONTROLLING INTERESTS (cont.)

(in millions of dollars)	2011	2010
Caisse's indebtedness toward depositors		
Demand deposits	**121**	197
Term deposits	**141**	160
Net income to be paid out to participation deposit holders	**272**	393
	534	750
Participation deposit holders' holdings		
Participation deposits		
Balance, beginning of year	**142,284**	137,123
Units issued	**8,072**	7,771
Units cancelled	**(495)**	(2,610)
Balance, end of year	**149,861**	142,284
Gains not allocated on the sale of investments	**9,448**	10,954
Unrealized decreases in value of investments and liabilities related to investments net of non-controlling interests	**(878)**	(2,246)
	158,431	150,992
Depositors' net holdings	**158,965**	151,742

The Caisse defines its capital as the net holdings of the holders of participation deposits, demand deposits and term deposits. The Caisse is not subject to external capital requirements.

The mission of the Caisse is to receive moneys on deposit as provided by law and to manage them with a view to achieving an optimal return on depositors' capital within the framework of their investment policies. Through its wholly owned subsidiary CDP Financial Inc., the Caisse issues capital securities to optimize financing costs and to fund certain investments.

B) NON-CONTROLLING INTERESTS

Non-controlling interests represent interests of non-controlling shareholders in consolidated subsidiaries that are not directly or indirectly attributable to the Caisse. Non-controlling interests are recorded at their share of the fair value of the investment and are allocated a proportional share of combined net assets and net investment results. Changes in the Caisse's interest in a subsidiary that do not affect control thereof are recorded as transactions on combined net assets.

As at December 31, the details of non-controlling interests are as follows:

(in millions of dollars)	2011	2010
Balance, beginning of year	**1,775**	1,560
Net investment results attributable to non-controlling interests *(note 7E)*	**499**	328
Other changes in non-controlling interests**	**223**	(113)
Balance, end of year	**2,497**	1,775

** In 2011, the other changes are due mainly to the sale of the Caisse's interest in consolidated subsidiaries, an increase in the non-controlling interest in a consolidated subsidiary and a consolidated subsidiary's buyback of its own shares. In 2010, the other changes are due mainly to the Caisse's acquisition of additional interests in consolidated subsidiaries.

As at December 31, the details of the cost and fair value of non-controlling interests are as follows:

(in millions of dollars)	2011		2010	
	Fair value	**Cost**	Fair value	Cost
Canadian	**1,998**	**1,656**	1,480	1,380
Foreign	**499**	**705**	295	655
	2,497	**2,361**	1,775	2,035

07

INVESTMENT INCOME, GAINS (LOSSES) ON THE SALE OF INVESTMENTS AND UNREALIZED INCREASES (DECREASES) IN VALUE OF INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS

A) INVESTMENT INCOME

(in millions of dollars)	2011	2010
Fixed-income securities		
Short-term investments	**258**	165
Bonds	**1,946**	2,129
Mortgages	**364**	451
	2,568	2,745
Variable-income securities		
Equities and convertible securities	**1,657**	1,268
Real estate holdings *(note 7B)*	**957**	924
	2,614	2,192
Other income	**57**	13
Less:		
External management fees	**7**	5
	5,232	4,945

Investment income – Fixed-income securities was increased by $79 million ($28 million in 2010) as net income (net expenses) related to securities acquired (sold) under reverse repurchase (repurchase) agreements. In addition, short-term investments were reduced by $11 million ($6 million in 2010) as interest expense on commercial paper, and Bonds were reduced by $311 million ($289 million in 2010) as interest expense on term notes.

B) NET INCOME FROM REAL ESTATE HOLDINGS

(in millions of dollars)	2011	2010
Income from real estate holdings	**2,734**	2,855
Less:		
Expenses related to real estate subsidiaries		
Operating expenses related to real estate holdings	**1,269**	1,352
Operation expenses	**83**	77
Loan financial expenses	**426**	514
	1,778	1,943
Other income	**1**	12
	957	924

INVESTMENT INCOME, GAINS (LOSSES) ON THE SALE OF INVESTMENTS AND UNREALIZED INCREASES (DECREASES) IN VALUE OF INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

C) GAINS (LOSSES) ON THE SALE OF INVESTMENTS

(in millions of dollars)	2011	2010
Fixed-income securities		
Short-term investments	**398**	(314)
Bonds	**1,511**	(659)
ABTNs	**(24)**	(488)
Mortgages	**(960)**	(925)
	925	(2,386)
Variable-income securities		
Equities and convertible securities	**(1,074)**	3,818
Real estate holdings	**(260)**	313
	(1,334)	4,131
Less:		
Transaction costs of investments	**71**	125
External management fees	**2**	7
	(482)	1,613

The amount of $482 million of losses ($1,613 million of gains in 2010) on the sale of investments recorded in the Combined statement of income and changes in net assets includes $898 million of foreign exchange losses ($852 million of foreign exchange gains in 2010).

INVESTMENT INCOME, GAINS (LOSSES) ON THE SALE OF INVESTMENTS AND UNREALIZED INCREASES (DECREASES) IN VALUE OF INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

D) UNREALIZED INCREASES IN VALUE OF INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS

(in millions of dollars)	2011	2010
Fixed-income securities		
Short-term investments	**(301)**	118
Bonds	**1,884**	3,183
Mortgages	**1,250**	1,723
Securities acquired under reverse repurchase agreements	**4**	7
ABTNs	**115**	994
	2,952	6,025
Variable-income securities		
Equities and convertible securities	**(2,962)**	5,044
Real estate holdings	**1,800**	1,074
	(1,162)	6,118
Total investments	**1,790**	12,143
Less:		
Liabilities related to investments		
Securities sold under repurchase agreements	**3**	230
Term notes	**676**	80
Short selling of securities	**(360)**	(34)
Mortgage loans payable	**9**	132
Other loans payable	**16**	6
Derivative financial instruments	**(318)**	(63)
	26	351
	1,764	11,792

The unrealized increases in value in the amount of $1,764 million ($11,792 million in 2010) recorded in the Combined statement of income and changes in net assets includes unrealized increases in value of $1,565 million related to foreign exchange (unrealized decreases in value of $1,668 million related to foreign exchange in 2010).

INVESTMENT INCOME, GAINS (LOSSES) ON THE SALE OF INVESTMENTS AND UNREALIZED INCREASES (DECREASES) IN VALUE OF INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont.)

E) NET INVESTMENT RESULTS ATTRIBUTABLE TO DEPOSITORS AND NON-CONTROLLING INTERESTS

(in millions of dollars)	2011			2010		
	Depositors	Non-controlling interests	Total	Depositors	Non-controlling interests	Total
Investment income	**5,142**	**90**	**5,232**	4,850	95	4,945
Less:						
Operating expenses	**269**	**–**	**269**	257	–	257
Expenses related to repositioning of information technology and write-offs of intangible assets	**–**	**–**	**–**	34	–	34
Net investment income	**4,873**	**90**	**4,963**	4,559	95	4,654
Gains (losses) on the sale of investments	**(495)**	**13**	**(482)**	1,582	31	1,613
Total realized income	**4,378**	**103**	**4,481**	6,141	126	6,267
Unrealized increases (decreases) in value of investments and liabilities related to investments	**1,368**	**396**	**1,764**	11,590	202	11,792
Net investment results	**5,746**	**499**	**6,245**	17,731	328	18,059

08
OPERATING EXPENSES

(in millions of dollars)	2011	2010
Salaries and employee benefits	**139**	122
Information technology and professional services	**51**	59
Data services and subscriptions	**12**	13
Premises and equipment	**17**	16
Depreciation of fixed assets	**26**	21
Other	**13**	14
	258	245
Safekeeping of securities	**11**	12
	269	257

09
IDENTIFICATION AND MANAGEMENT OF RISKS RELATED TO INVESTMENT OPERATIONS

The Caisse has implemented a number of policies, guidelines and procedures to oversee its operations.

Risk management is based on an integrated risk management policy adopted by the Board of Directors. This policy, which is revised on a regular basis, is intended to promote a risk management culture and ensure stringent risk management practices to help the Caisse carry out its mission on behalf of its depositors. More specifically, the policy defines risk management governance, establishes the acceptable level of risk so as to avoid excessive loss, links the level of risk to the target value added and aims for an efficient allocation of risk.

Governance of risk management is based on three levels of control:

1. Portfolio managers, who are primarily responsible for managing the risks related to operations under their purview;
2. The Risk Committee (RC), a subcommittee of the Executive Committee, with assistance from the Risk Department and the Policies and Compliance Senior Vice-Presidency; and
3. The Board of Directors, its Audit Committee and its Risk Management Committee, as well as Internal Audit.

The policy includes reporting mechanisms for each of these levels. It also includes a framework for outsourcing management of investments, management of operational risks and management of derivative financial instruments.

To ensure the objectivity and rigour required to manage risks, teams that are independent of the portfolio managers are responsible for defining and monitoring the integrated risk management policy as well as the investment policies applying to the specialized portfolios.

The financial risks defined in the integrated risk management policy include the following:

a) Market risk;
b) Credit risk;
c) Counterparty risk related to derivative financial instruments; and
d) Financing-liquidity risk.

Investment policies are designed to oversee the activities performed by the portfolio managers. For each specialized portfolio, an investment policy establishes the philosophy, management type, investment universe, benchmark index, value-added target and risk oversight, including concentration and risk limits. The managers must abide by the limits on their investment operations.

A) MARKET RISK

Market risk represents the risk of financial loss arising from changes in the value of financial instruments. Such value is affected by changes in certain market variables, such as interest rates, exchange rates, share prices and commodity prices. The risk derives from the volatility in the price of a financial instrument, which itself results from the volatility of such market variables.

The Caisse manages all market risks according to an integrated approach. The major factors contributing to risk, such as sectors, countries and issuers, are taken into account.

The Caisse may use derivative financial instruments traded on exchanges or negotiated directly with banks and securities dealers, to manage market risks.

The Caisse measures its market risk using the method known as Value at Risk (VaR), which is based on a statistical estimate of the volatility of the fair value of each position and its correlations. VaR is a statistical estimate of a portfolio's potential loss according to a predetermined confidence level during a given exposure period. The VaR of the market is estimated with a 99% confidence level over an exposure period of one year. The VaR calculated by the Caisse therefore presents the level of loss that a portfolio should reach or exceed in 1% of cases. The Caisse estimates VaR for each instrument in its specialized portfolios and aggregates the information for the overall portfolio.

The Caisse uses the historical-simulation method to estimate VaR. This method is based essentially on the assumption that the future will be similar to the past. It requires that the series of historical data on all the risk factors needed to estimate the returns on instruments be available. In the absence of historical data, alternative methods are used. A horizon of 1,500 days of observation of risk factors, such as variations in exchange rates, interest rates and financial asset prices, is used to estimate the volatility of returns and the correlation between asset returns. As at December 31, 2010, the Caisse used a 99% confidence level and a 1,300-day horizon to calculate VaR. The comparable VaR was recalculated on a 1,500-day horizon.

IDENTIFICATION AND MANAGEMENT OF RISKS RELATED TO INVESTMENT OPERATIONS (cont.)

The Caisse calculates two types of risk: absolute risk and active risk. The absolute risk, or absolute VaR, of the Caisse's benchmark portfolio (target portfolio of the depositors as a whole) is the result of the risk of the benchmark indexes of the asset classes in the portfolio. For example, should the depositors elect to increase the weight of equities in their respective benchmark portfolios, such risk would increase automatically because of the higher level of volatility of this asset class. Consequently, the expected absolute return would also increase. The absolute risk of the overall portfolio (consisting of the actual investments) corresponds to the risk (volatility) of the positions in the Caisse's overall portfolio. The absolute risk of the overall portfolio and that of the benchmark portfolio are calculated with the same method but they relate to different portfolios, namely the overall portfolio actually invested by the Caisse and the benchmark portfolio targeted by depositors.

Active risk, or VaR related to active management, represents the possibility that the Caisse will record a return different from that of its benchmark portfolio as a result of active management of its overall portfolio. The higher the active risk, the more the absolute return expected from the overall portfolio will differ from the benchmark portfolio return.

The absolute risk of the Caisse's benchmark portfolio and the active risk and absolute risk of the overall portfolio are measured on a regular basis and are subject to various limits.

As at December 31, the overall portfolio's absolute risk and active risk, according to a 99% confidence level and a 1,500-day horizon, are as follows:

ABSOLUTE RISK OF THE OVERALL PORTFOLIO

(as a %)	**2011**	2010
Fixed income	**10.2**	10.0
Inflation-sensitive investments	**41.5**	35.7
Equities	**47.0**	47.2
Other investments[1]	**1.5**	2.2
Overall risk	**29.9**	31.4

ACTIVE RISK OF THE OVERALL PORTFOLIO

(as a %)	**2011**	2010
Fixed income	**1.2**	1.2
Inflation-sensitive investments	**16.5**	10.2
Equities	**4.7**	5.7
Other investments[1]	**1.5**	2.1
Overall risk	**3.7**	4.2

1. VaR for Other investments category is presented as a percentage of net assets of the Caisse.

FOREIGN EXCHANGE RISK

Foreign exchange risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of variations in foreign currency exchange rates. This risk is integrated into the overall measurement of VaR.

To manage foreign exchange risk, the Caisse also uses instruments negotiated with banks. The maturities of these instruments generally range from one to 12 months for forward contracts and options, and from one to two years for foreign currency swaps. On maturity, new derivative financial instruments are negotiated to maintain effective long-term management of the foreign exchange risks associated with investments and liabilities related to investments in foreign currencies.

IDENTIFICATION AND MANAGEMENT OF RISKS RELATED TO INVESTMENT OPERATIONS (cont.)

The allocation of net investments denominated in currencies is as follows as at December 31:

(In millions of dollars) 2011

	Canadian dollar	Currency[a]					Total
		U.S. dollar	Euro	Pound sterling	Other	Subtotal	
Investments							
Fixed-income securities	68,905	3,327	882	294	971	5,474	74,379
Equities and convertible securities	16,905	31,594	7,812	6,044	14,386	59,836	76,741
Real estate holdings	13,501	3,292	3,658	646	936	8,532	22,033
Amounts receivable with respect to investments							
Securities acquired under reverse repurchase agreements	6,056	1,665	254	–	–	1,919	7,975
Amount pertaining to derivative financial instruments	2,957	849	349	80	243	1,521	4,478
	108,324	40,727	12,955	7,064	16,536	77,282	185,606
Liabilities related to investments							
Conventional products[b]	12,459	9,821	2,955	186	328	13,290	25,749
Amount pertaining to derivative financial instruments	1,215	999	295	49	247	1,590	2,805
	13,674	10,820	3,250	235	575	14,880	28,554
Net investments	94,650	29,907	9,705	6,829	15,961	62,402	157,052

(In millions of dollars) 2010

	Canadian dollar	Currency[a]					Total
		U.S. dollar	Euro	Pound sterling	Other	Subtotal	
Investments							
Fixed-income securities	71,267	4,643	604	303	1,092	6,642	77,909
Equities and convertible securities	16,676	22,359	7,210	5,048	12,628	47,245	63,921
Real estate holdings	12,880	3,351	3,839	635	785	8,610	21,490
Amounts receivable with respect to investments							
Securities acquired under reverse repurchase agreements	8,761	1,007	–	–	–	1,007	9,768
Amount pertaining to derivative financial instruments	2,118	2,792	191	90	97	3,170	5,288
	111,702	34,152	11,844	6,076	14,602	66,674	178,376
Liabilities related to investments							
Conventional products[b]	12,042	9,408	2,735	453	34	12,630	24,672
Amount pertaining to derivative financial instruments	470	2,252	246	33	134	2,665	3,135
	12,512	11,660	2,981	486	168	15,295	27,807
Net investments	99,190	22,492	8,863	5,590	14,434	51,379	150,569

a. Investments are recorded under the currency they are denominated in and are translated into Canadian dollars.
b. Conventional products include liabilities related to investments with the exception of the amount pertaining to derivative financial instruments.

The impact of translation of the fair value of foreign currency investments into Canadian dollars included under the item Gains (losses) on the sale of investments and under Unrealized increases (decreases) in value of investments and liabilities related to investments is favourable by $790 million (unfavourable by $2,403 million in 2010). The impact of exchange rate hedging related to a portion of such investments is unfavourable by $123 million (favourable by $1,587 million in 2010). The net impact on net investment results is favourable by $667 million (unfavourable by $816 million in 2010).

IDENTIFICATION AND MANAGEMENT OF RISKS RELATED TO INVESTMENT OPERATIONS (cont.)

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. All interest-bearing assets and liabilities as well as their effective rates are shown in the table presenting the exposure to liquidity risk. This risk is integrated into the overall measurement of VaR.

PRICE RISK

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than changes arising from interest rate risk or foreign exchange risk), whether such changes derive from the characteristics of the instrument itself or of its issuer, or from elements affecting all similar financial instruments traded on the market. This risk is integrated into the overall measurement of VaR.

B) CREDIT RISK

Credit risk is the possibility of a loss of fair value in the event that a borrower, endorser, guarantor or counterparty does not honour its obligation to repay a loan or to fulfill any other financial commitment, or sees its financial situation deteriorate. Sources of credit risk include fixed-income securities, derivative financial instruments, provision of financial collateral and lending commitments.

Analysis of credit risk includes the probability of default and the recovery rate on debt securities held by the Caisse, as well as monitoring of changes in the credit quality of issuers or groups of issuers whose securities are held in all the portfolios of the Caisse.

Analysis of concentration measures the fair value of a group of financial products, particularly fixed-income and variable-income securities, related to a single issuer or to a group of issuers[1] with similar characteristics (region, sector and credit rating).

The concentration limit by group of issuers is 3% of the Caisse's total assets, with the exception of securities issued by the Government of Canada, the Government of Québec or another Canadian province or territory, as well as by their departments and agencies, which are not subject to concentration limits. Sovereign issuers rated AAA are also excluded from this concentration limit. Specific concentration limits also apply to investments in emerging markets. Concentration by issuer is monitored on a monthly basis or on initiation of a transaction requiring approval from the Risk Committee.

The concentration by credit rating of the Caisse's groups of issuers is as follows as at December 31:

	2011	2010
	Value as a % of investments[2]	
Credit rating:[3]		
AAA – AA	**19.2**	23.1
A	**25.4**	22.1
BBB	**12.1**	9.1
BB or lower	**2.9**	3.1
No credit rating:		
Real estate assets	**16.0**	17.3
ABTNs	**0.9**	0.6
Private Equity	**5.1**	4.1
Private investment funds and hedge funds	**7.3**	7.9
Mortgages and mortgage securities	**4.6**	4.2
Other	**6.5**	8.5
	100.0	100.0

1. A group of issuers is a number of issuers under the control of a parent company.
2. The percentage of investments represents net positions by group of issuers.
3. Credit ratings are obtained from main recognized credit rating agencies and are aggregated according to an algorithm developed in house. For the purposes of this concentration, only long-term credit ratings from main agencies are used.

IDENTIFICATION AND MANAGEMENT OF RISKS RELATED TO INVESTMENT OPERATIONS (cont.)

In the table above, the groups of issuers for which no credit rating is available are categorized. For most of these groups, the absence of a credit rating from the main recognized credit rating agencies is due to the private nature of the investments, the absence of any debt, restructuring of the investments or a combination of these elements. Most of the issuers, however, are evaluated with an internal rating system that is used to closely monitor changes in the credit cycle. The system includes exposure limits by sector and country (or region) and by external credit rating (no limit for internal credit ratings).

In 2011, 180 groups of issuers whose securities are held by the Caisse received a credit upgrade from the main credit rating agencies, while 154 others received a downgrade. The Caisse frequently monitors changes in credit ratings by the agencies and compares them with the internal credit ratings when they are available.

In the case of mortgages with no assigned credit rating, the analysis of credit risk is based in part on the loan-to-value ratio. In this ratio, the amount of the loan is divided by the fair value of any asset received as collateral on the subscription date or the date funds were granted, or at any other time during the term of the loan.

The table below shows the breakdown of mortgages as at December 31:

	2011	2010
	Value as a % of mortgages	
Loan-to-value ratio		
0 to 55%	**40.0**	26.5
55 to 65%	**30.3**	20.5
65 to 75%	**27.2**	35.7
75 to 85%	**1.2**	10.6
More than 85%	**1.3**	6.7
	100.0	100.0

Credit risk is measured by the fair value of investments before collateral or other credit upgrades are taken into account. For off-balance-sheet items, the value taken into account to determine maximum exposure to credit risk corresponds to the amount guaranteed or incurred.

The maximum exposure to credit risk is as follows as at December 31:

(in millions of dollars)	**2011**	2010
Investments		
Fixed-income securities	**74,379**	77,909
Amounts receivable with respect to investments	**12,453**	15,056
	86,832	92,965
Off-balance-sheet		
Collateral pledged *(note 13)*	**8,474**	8,940
Collaterals and loan guarantees *(note 12)*	**789**	1,322
Funding facility *(note 12)*	**6,167**	6,167
	15,430	16,429
Total maximum exposure	**102,262**	109,394

In reality, this exposure is less because the Caisse takes various measures to mitigate credit risk, such as the taking of guarantees (refer to note 13).

IDENTIFICATION AND MANAGEMENT OF RISKS RELATED TO INVESTMENT OPERATIONS (cont.)

C) COUNTERPARTY RISK RELATED TO DERIVATIVE FINANCIAL INSTRUMENTS

Over-the-counter derivative financial instruments give rise to counterparty risk, because they are negotiated by private contract without being traded through a clearing house. Counterparty risk corresponds to the credit risk from current or potential exposure arising from transactions involving this type of instrument in the event that the counterparty becomes unable to respect the conditions in the contracts.

To limit its exposure to counterparty risk arising from transactions involving over-the-counter derivative financial instruments, the Caisse carries out transactions with financial institutions whose credit rating is established by recognized credit rating agencies and whose operational limits are set by management. Moreover, the Caisse concludes legal agreements based on the standards of the International Swaps and Derivatives Association (ISDA), which allows it to benefit from the offset between the amounts at risk and the exchange of collateral to limit its exposure to this risk.

This risk is measured by counterparty, pursuant to the legal agreement in effect, from which it is possible to calculate the net exposure occasioned by all over-the-counter derivative financial instruments and by the collateral exchanged. Actual exposure to counterparty risk is measured on a daily basis, pursuant to the legal agreement in effect. Potential exposure to counterparty risk is measured on a monthly basis.

As at December 31, the legal agreements and the collateral received helped reduce exposure to the counterparty risk of over-the-counter derivative financial instruments to $435 million ($301 million in 2010), in respect of 61 active counterparties (68 in 2010).

D) FINANCING-LIQUIDITY RISK

Financing-liquidity risk corresponds to the possibility that the Caisse may not always be able to fulfill the commitments related to its financial liabilities without having to obtain funds at abnormally high prices or having to sell assets. It also corresponds to the risk that the Caisse may not be able to sell investments quickly or to purchase investments without having a significant unfavourable effect on the price of the investment in question.

Analysis of compliance with established rules is monitored on a monthly basis, and the liquidity status is determined daily. The Caisse uses various scenario simulations to estimate the potential impact of various market events on its liquidity. Managers evaluate the liquidity of the markets on which the Caisse obtains financing for its operations. They also ensure that the Caisse is active on various financial markets and maintains relationships with the recognized credit rating agencies that rate the Caisse as well as with capital providers.

IDENTIFICATION AND MANAGEMENT OF RISKS RELATED TO INVESTMENT OPERATIONS (cont.)

The summary of maturities at par value of investments and liabilities related to investments as at December 31 is as follows:

(in millions of dollars)					2011		2010
	Less than 1 year	1 year to 5 years	More than 5 years	Total	Effective interest rate %	Total	Effective interest rate %
Fixed-income securities							
Short-term investments							
Canadian	480	58	–	538	1.9	2,416	1.9
Foreign	1,329	2	–	1,331	2.6	1,820	2.6
	1,809	60	–	1,869	2.4	4,236	2.2
Bonds							
Issued or guaranteed by:							
Canadian government	20	8,871	5,578	14,469	1.8	20,113	2.6
Province of Québec	472	400	6,826	7,698	3.6	7,616	4.2
Other Canadian provinces	34	30	1,165	1,229	4.1	1,472	4.1
Municipalities and other Canadian agencies	202	765	450	1,417	4.1	1,253	4.5
Canadian government corporations	201	5,132	5,700	11,033	3.2	10,549	3.4
U.S. government	–	195	770	965	3.0	1,381	3.7
Other foreign governments	–	1	267	268	4.2	17	4.9
Mortgage securities							
Canadian	40	121	15	176	5.6	246	7.7
Foreign	–	111	7	118	–	330	6.2
Canadian corporations	169	2,861	7,085	10,115	5.2	8,762	5.0
Foreign corporations	51	1,791	447	2,289	7.8	2,045	8.7
Inflation-indexed securities							
Canadian	–	8	706	714	1.1	590	1.6
Foreign	–	–	99	99	3.1	–	–
	1,189	20,286	29,115	50,590	3.5	54,374	3.7
ABTNs	421	1,084	10,373	11,878	–	11,967	–
Mortgages							
Canadian	1,320	2,625	2,475	6,420	3.8	5,782	4.6
Foreign	391	179	288	858	4.9	2,945	7.5
	1,711	2,804	2,763	7,278	3.9	8,727	5.6
	5,130	24,234	42,251	71,615	3.5	79,304	3.9
Amounts receivable with respect to investments							
Securities acquired under reverse repurchase agreements							
Canadian	6,057	–	–	6,057	1.0	8,763	1.0
Foreign	1,919	–	–	1,919	–	1,007	0.1
	7,976	–	–	7,976	0.8	9,770	0.9

IDENTIFICATION AND MANAGEMENT OF RISKS RELATED TO INVESTMENT OPERATIONS (cont.)

(in millions of dollars)					2011		2010
	Less than 1 year	1 year to 5 years	More than 5 years	Total	Effective interest rate %	Total	Effective interest rate %
Liabilities related to investments							
Securities sold under repurchase agreements	670	–	–	670	0.7	967	0.4
Commercial paper payable	1,019	–	–	1,019	1.1	1,019	1.1
Term notes	–	3,036	5,046	8,082	3.8	7,968	3.8
Short selling of securities	–	392	1,799	2,191	2.3	1,631	1.5
Mortgage loans payable	31	1,625	560	2,216	4.6	2,843	4.4
Other loans payable	1,771	234	1,290	3,295	1.1	2,997	0.9
	3,491	5,287	8,695	17,473	2.9	17,425	2.8

The Caisse is a party to various commitments and issues financial guarantees that can have an impact on its liquidity (refer to notes 3E, 12 and 13).

10
DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts whose value fluctuates as a function of the underlying asset, and which do not require holding or delivering the underlying asset itself. The underlying may be of a financial nature (interest rate, foreign currency or stock market security or index) or may be a commodity (precious metal or crude oil).

The notional amount of a derivative financial instrument represents the value of the notional principal to which a rate or a price applies to determine the exchange of future cash flows, and does not reflect the credit risk pertaining to the instrument.

The Caisse uses derivative financial instruments that include the following:

- Forward contracts and futures contracts are undertakings that enable the purchase or sale of an underlying, the quantity and price of which are determined in the contract, which includes a predetermined maturity date. A forward contract involves customized conditions negotiated directly between the parties on the over-the-counter market. A futures contract has terms and conditions determined by an organized market.
- A swap is a transaction whereby two parties agree to exchange financial flows on predetermined conditions that include a notional amount and a term.
- An option is a contract that is negotiated by mutual agreement or traded on an organized market and that gives the purchaser the right, but not the obligation, to buy or sell a given amount of an underlying security, index or commodity, at a strike price stipulated in advance, either at a determined date or at any time before a specified maturity date.
- A warrant is a contract that enables the purchase of an underlying at a price established by the contract and according to the maturity stated therein.

Foreign exchange risk arises from investments and liabilities related to investments denominated in foreign currencies, as well as from related derivative financial instruments.

Derivative financial instruments that are traded on exchanges or negotiated with banks and securities dealers are used to manage the interest rate and market risks of the total investment portfolio.

DERIVATIVE FINANCIAL INSTRUMENTS (cont.)

A) SUMMARY OF DERIVATIVE FINANCIAL INSTRUMENTS

(in millions of dollars)				2011	2010
		Fair value			
	Notional amount	Assets	Liabilities	Net amount	Net amount
Foreign exchange risk management					
Foreign currency swaps					
Purchases	4,246	50	48	2	171
Forward contracts					
Purchases	6,400	156	65	91	(68)
Sales	25,059	455	275	180	542
Over-the-counter options					
Purchases	241	26	–	26	–
Sales	185	–	4	(4)	–
	36,131	687	392	295	645
Interest rate and market risk management					
Interest rate and foreign currency swaps	52,542	2,033	2,014	19	284
Credit default swaps	42,697	1,073	70	1,003	1,096
Equity and convertible securities swaps	20,896	504	185	319	120
Commodity swaps	59	5	4	1	(3)
Futures contracts	7,993	31	32	(1)	(28)
Forward contracts	2,342	9	16	(7)	(15)
Over-the-counter options					
Purchases	3,590	77	–	77	65
Sales	3,075	–	86	(86)	(86)
Exchange-traded options					
Purchases	814	15	–	15	24
Sales	301	–	6	(6)	(10)
Warrants	101	44	–	44	61
	134,410	3,791	2,413	1,378	1,508
Total derivative financial instrument contracts	170,541	4,478	2,805	1,673	2,153

DERIVATIVE FINANCIAL INSTRUMENTS (cont.)

B) SUMMARY OF DERIVATIVE FINANCIAL INSTRUMENT MATURITIES

(in millions of dollars)				2011	2010
	Notional amount – Maturity				
	Less than 1 year	1 year to 5 years	More than 5 years	Total	Notional amount
Foreign exchange risk management					
Foreign currency swaps					
Purchases	2,128	1,986	132	4,246	2,365
Forward contracts					
Purchases	6,400	–	–	6,400	2,272
Sales	24,205	854	–	25,059	16,932
Over-the-counter options					
Purchases	241	–	–	241	158
Sales	185	–	–	185	34
	33,159	2,840	132	36,131	21,761
Interest rate and market risk management					
Interest rate and foreign currency swaps	8,657	22,371	21,514	52,542	84,770
Credit default swaps	9,804	32,798	95	42,697	42,321
Equity and convertible securities swaps	20,190	706	–	20,896	17,262
Commodity swaps	59	–	–	59	74
Futures contracts	7,888	105	–	7,993	14,432
Forward contracts	2,317	25	–	2,342	8,154
Over-the-counter options					
Purchases	2,558	1,032	–	3,590	6,534
Sales	2,602	473	–	3,075	2,619
Exchange-traded options					
Purchases	814	–	–	814	772
Sales	301	–	–	301	454
Warrants	17	84	–	101	115
	55,207	57,594	21,609	134,410	177,507
Total derivative financial instrument contracts	88,366	60,434	21,741	170,541	199,268

(in millions of dollars)				2011	2010
	Fair value – Maturity				
	Less than 1 year	1 year to 5 years	More than 5 years	Total	Fair value
Derivative financial instruments					
Assets	1,297	1,758	1,423	4,478	5,288
Liabilities	649	1,014	1,142	2,805	3,135
Net amount	648	744	281	1,673	2,153

11
TRANSFERS OF RECEIVABLES

The Caisse has put in place a program to syndicate some of its mortgages. Pursuant to these transactions, the Caisse assumes the role of administrator of the mortgages sold and thus maintains a relationship with clients. During the year ended December 31, 2011, the Caisse carried out various syndication operations in the amount of $48 million ($231 million in 2010). Syndication gains and losses are not recorded separately because the amounts involved are not significant.

No securitization activities were carried out in 2011 and 2010.

12
COMMITMENTS AND CONTINGENCIES

Given the nature of its operations, the Caisse has a number of commitments.

Commitments to buy investments mean the Caisse is committed to buying investments that will be settled in the coming financial years, in accordance with the terms and conditions in each agreement.

For the Caisse, guarantees and loan guarantees consist in providing guarantees to financial institutions and corporations regarding future income deriving from the sale of investments and transactions on derivative financial instruments as well as repayment of borrowings by investee companies. Guarantees related to the repayment of loans have no specific maturity date, except in some cases where the terms range from one to five years.

(in millions of dollars)	2011	2010
Commitments to buy investments	**7,182**	6,902
Guarantees and loan guarantees	**789**	1,322
ABTNs[1]	**6,167**	6,167
	14,138	14,391

1. For a description of the commitments related to ABTNs, see note 3E.

13
COLLATERALS

In the normal course of business, the Caisse pledges financial assets as collateral for securities borrowed, securities sold under repurchase agreements and transactions involving derivative financial instruments. The counterparty is authorized to sell or pledge as collateral certain securities in the absence of default by the Caisse. On certain conditions, the Caisse may have to pledge additional collateral if collateral already pledged has lost value.

The following table presents the fair value of the collateral pledged by the Caisse as at December 31:

(in millions of dollars)	**2011**	2010
Collateral pledged for		
Securities borrowed	**7,138**	6,905
Securities sold under repurchase agreements	**671**	967
Over-the-counter derivative financial instruments	**220**	–
Exchange-traded derivative financial instruments	**445**	1,068
	8,474	8,940

The Caisse receives financial assets as collateral for securities lent, securities acquired under reverse repurchase agreements and transactions involving derivative financial instruments. The Caisse is authorized to sell or pledge certain securities in the absence of default by the counterparty. The Caisse is obliged to return such securities to the counterparties. If the value of the collateral received decreases, the Caisse may in certain cases request additional collateral.

The following table presents the fair value of the collateral received by the Caisse as at December 31:

(in millions of dollars)	**2011**	2010
Collateral received for		
Securities lent	**1,872**	2,108
Securities acquired under reverse repurchase agreements	**8,000**	9,784
Over-the-counter derivative financial instruments	**1,916**	1,948
	11,788	13,840

14
COMPARATIVE FIGURES

Certain figures from the 2010 financial statements have been reclassified to conform to the presentation adopted in 2011.

SUPPLEMENTARY INFORMATION

Summary financial statements for the specialized portfolios

(in millions of dollars)	SHORT TERM INVESTMENTS (740)		BONDS (760)		LONG TERM BONDS (764)		REAL ESTATE DEBT (750)	
Consolidated net assets as at December 31	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Assets								
Investments at fair value								
Real estate holdings	–	–	–	–	–	–	–	–
Equities and convertible securities	–	–	–	–	–	–	–	–
Bonds	–	–	**49,905.9**	51,495.2	**3,761.7**	3,571.5	–	–
Mortgages	–	–	–	–	–	–	**6,067.3**	6,609.2
Mortgage securities	–	–	–	–	–	–	**196.8**	281.0
Short-term investments	–	–	**1,588.5**	2,979.2	–	–	**28.1**	1,048.1
Notes receivable from entities under common control	–	–	–	–	**734.0**	741.0	–	–
Securities acquired under reverse repurchase agreements	**7,934.2**	3,209.2	**4,301.4**	10,791.8	–	–	–	–
Real estate held for resale	–	–	–	–	–	–	–	24.7
ABTNs	–	–	–	–	–	–	–	–
	7,934.2	3,209.2	**55,795.8**	65,266.2	**4,495.7**	4,312.5	**6,292.2**	7,963.0
Demand deposits in the General Fund	–	167.1	**3,336.8**	–	–	–	**29.8**	–
Other assets	–	–	**1,298.0**	1,273.6	**46.6**	43.2	**636.3**	1,065.5
	7,934.2	3,376.3	**60,430.6**	66,539.8	**4,542.3**	4,355.7	**6,948.3**	9,028.5
Liabilities								
Liabilities related to investments								
Securities sold under repurchase agreements	–	–	**10,739.4**	5,030.5	**733.8**	741.0	–	–
Notes payable to entities under common control	–	–	**2,278.2**	12,318.9	–	–	–	–
Loans payable	–	–	–	–	–	–	–	–
Loans payable to entities under common control	–	–	–	–	–	–	–	–
Mortgage loans payable	–	–	–	–	–	–	–	–
Commercial mortgage-backed securities (CMBS)	–	–	–	–	–	–	–	13.4
Short selling of securities	–	–	**3,999.6**	4,611.2	–	–	–	–
Derivative financial instruments	–	–	**1,495.6**	2,811.9	–	–	**65.7**	103.3
	–	–	**18,512.8**	24,772.5	**733.8**	741.0	**65.7**	116.7
Advances from the General Fund	**1,171.9**	–	–	979.3	**44.3**	5.9	–	18.5
Other liabilities	**6.6**	3.1	**395.5**	880.0	**17.2**	22.8	**242.1**	186.3
	1,178.5	3.1	**18,908.3**	26,631.8	**795.3**	769.7	**307.8**	321.5
Consolidated net assets	**6,755.7**	3,373.2	**41,522.3**	39,908.0	**3,747.0**	3,586.0	**6,640.5**	8,707.0
Less:								
Non-controlling interests	–	–	–	–	–	–	**33.0**	71.1
Net holdings of funds	**6,755.7**	3,373.2	**41,522.3**	39,908.0	**3,747.0**	3,586.0	**6,607.5**	8,635.9
Consolidated statement of income and changes in net assets for years ended December 31								
Income								
Investment income	**47.9**	18.8	**1,384.6**	1,677.2	**149.2**	141.4	**696.4**	609.7
Other income	–	–	**6.3**	–	–	–	–	–
	47.9	18.8	**1,390.9**	1,677.2	**149.2**	141.4	**696.4**	609.7
Operating expenses	**0.5**	0.5	**45.2**	39.1	**2.4**	1.6	**8.8**	7.1
Expenses related to repositioning of information technology and write-offs of intangible assets	–	0.1	–	7.1	–	0.2	–	0.4
Income before the following items	**47.4**	18.2	**1,345.7**	1,631.0	**146.8**	139.6	**687.6**	602.2
Interest on notes payable to entities under common control	–	–	**47.3**	82.9	–	–	–	–
Interest on loans payable	–	–	–	–	–	–	–	–
Net investment income (loss)	**47.4**	18.2	**1,298.4**	1,548.1	**146.8**	139.6	**687.6**	602.2
Gains (losses) on sale of investments	–	0.2	**1,402.1**	672.8	**148.0**	192.2	**(1,041.5)**	(3,007.4)
Unrealized increases (decreases) in value of investments and liabilities related to investments	**(0.6)**	(0.1)	**1,280.3**	939.9	**333.5**	58.7	**1,374.5**	3,797.2
Net investment results	**46.8**	18.3	**3,980.8**	3,160.8	**628.3**	390.5	**1,020.6**	1,392.0
Participation units issued (cancelled)	**3,383.1**	659.5	**(1,068.1)**	921.7	**(320.5)**	244.2	**(2,358.7)**	(1,190.9)
Net investment loss (net income) recovered from (allocated to) participation unit holders	**(47.4)**	(18.2)	**(1,298.4)**	(1,548.1)	**(146.8)**	(139.6)	**(684.0)**	(595.8)
Other changes in non-controlling interests	–	–	–	–	–	–	**(44.4)**	36.9
Increase (decrease) in consolidated net assets	**3,382.5**	659.6	**1,614.3**	2,534.4	**161.0**	495.1	**(2,066.5)**	(357.8)
Consolidated net assets, beginning of year	**3,373.2**	2,713.6	**39,908.0**	37,373.6	**3,586.0**	3,090.9	**8,707.0**	9,064.8
Consolidated net assets, end of year	**6,755.7**	3,373.2	**41,522.3**	39,908.0	**3,747.0**	3,586.0	**6,640.5**	8,707.0
Attributable to participation unit holders								
Net investment results	**46.8**	18.3	**3,980.8**	3,160.8	**628.3**	390.5	**1,020.6**	1,392.0
Less:								
Net investment results attributable to non-controlling interests	–	–	–	–	–	–	**6.3**	15.9
Net investment results attributable to participation unit holders	**46.8**	18.3	**3,980.8**	3,160.8	**628.3**	390.5	**1,014.3**	1,376.1
Participation units issued (cancelled)	**3,383.1**	659.5	**(1,068.1)**	921.7	**(320.5)**	244.2	**(2,358.7)**	(1,190.9)
Net investment loss (net income) recovered from (allocated to) participation unit holders	**(47.4)**	(18.2)	**(1,298.4)**	(1,548.1)	**(146.8)**	(139.6)	**(684.0)**	(595.8)
Increase (decrease) in net holdings of funds	**3,382.5**	659.6	**1,614.3**	2,534.4	**161.0**	495.1	**(2,028.4)**	(410.6)
Net holdings of funds, beginning of year	**3,373.2**	2,713.6	**39,908.0**	37,373.6	**3,586.0**	3,090.9	**8,635.9**	9,046.5
Net holdings of funds, end of year	**6,755.7**	3,373.2	**41,522.3**	39,908.0	**3,747.0**	3,586.0	**6,607.5**	8,635.9
Investments and liabilities related to investments at cost as at December 31								
Investments								
Real estate holdings	–	–	–	–	–	–	–	–
Equities and convertible securities	–	–	–	–	–	–	–	–
Bonds	–	–	**45,648.5**	48,400.3	**3,391.7**	3,534.9	–	–
Mortgages	–	–	–	–	–	–	**5,789.3**	7,490.9
Mortgage securities	–	–	–	–	–	–	**294.7**	544.6
Short-term investments	–	–	**1,662.2**	2,055.6	–	–	**28.1**	1,048.1
Notes receivable from entities under common control	–	–	–	–	**734.0**	741.0	–	–
Securities acquired under reverse repurchase agreements	**7,834.9**	3,209.2	**4,308.5**	10,802.6	–	–	–	–
Real estate held for resale	–	–	–	–	–	–	–	46.3
ABTNs	–	–	–	–	–	–	–	–
	7,834.9	3,209.2	**51,619.2**	61,258.5	**4,125.7**	4,275.9	**6,112.1**	9,129.9
Liabilities related to investments								
Securities sold under repurchase agreements	–	–	**10,743.7**	5,042.9	**733.8**	741.0	–	–
Notes payable to entities under common control	–	–	**2,278.2**	12,318.9	–	–	–	–
Loans payable	–	–	–	–	–	–	–	–
Loans payable to entities under common control	–	–	–	–	–	–	–	–
Mortgage loans payable	–	–	–	–	–	–	–	–
Commercial mortgage-backed securities (CMBS)	–	–	–	–	–	–	–	13.5
Short selling of securities	–	–	**3,833.2**	4,619.4	–	–	–	–
Derivative financial instruments	–	–	**10.7**	32.8	–	–	–	–
	–	–	**16,865.8**	22,014.0	**733.8**	741.0	–	13.5

SUPPLEMENTARY INFORMATION

Summary financial statements for the specialized portfolios (cont.)

(In millions of dollars)	Real Return Bonds (762) 2011	2010	Infrastructure (782) 2011	(Started July 1) 2010	Real Estate (710) 2011	2010	Canadian Equity (720) 2011	2010
Consolidated net assets as at December 31								
Assets								
Investments at fair value								
Real estate holdings	–	–	–	–	22,186.3	21,618.0	–	–
Equities and convertible securities	–	–	6,620.8	4,475.7	4,065.1	4,232.4	11,594.4	11,490.8
Bonds	1,303.5	975.3	1,344.5	501.3	–	–	–	–
Mortgages	–	–	–	–	1,480.0	1,199.0	–	–
Mortgage securities	–	–	–	–	–	–	–	–
Short-term investments	–	–	–	–	988.9	1,174.4	–	1,559.8
Notes receivable from entities under common control	–	–	–	–	–	–	12,325.8	12,295.0
Securities acquired under reverse repurchase agreements	–	–	–	–	–	–	–	–
Real estate held for resale	–	–	–	–	–	–	–	–
ABTNs	–	–	–	–	–	–	–	–
	1,303.5	975.3	7,865.3	4,977.0	28,720.3	28,223.8	23,920.2	25,345.6
Demand deposits in the General Fund	146.1	3.5	–	147.7	177.7	–	211.3	–
Other assets	2.7	2.1	39.0	33.3	2,689.5	1,801.8	44.6	36.4
	1,452.3	980.9	7,904.3	5,158.0	31,587.5	30,025.6	24,176.1	25,382.0
Liabilities								
Liabilities related to investments								
Securities sold under repurchase agreements	148.6	6.5	–	–	–	–	–	–
Notes payable to entities under common control	–	–	–	–	–	–	–	–
Loans payable	–	–	9.3	12.8	146.2	130.4	–	–
Loans payable to entities under common control	–	–	–	–	8,756.2	8,175.1	–	–
Mortgage loans payable	–	–	–	–	2,217.1	2,835.0	–	–
Commercial mortgage-backed securities (CMBS)	–	–	–	–	–	–	–	–
Short selling of securities	–	–	–	–	–	–	5,557.7	5,573.0
Derivative financial instruments	–	–	108.8	98.8	349.2	300.7	43.4	40.2
	148.6	6.5	118.1	111.6	11,468.7	11,441.2	5,601.1	5,613.2
Advances from the General Fund	–	–	864.7	–	–	222.8	–	395.3
Other liabilities	18.0	38.7	33.2	17.3	817.1	893.0	83.6	111.0
	166.6	45.2	1,016.0	128.9	12,285.8	12,557.0	5,684.7	6,119.5
Consolidated net assets	1,285.7	935.7	6,888.3	5,029.1	19,301.7	17,468.6	18,491.4	19,262.5
Less:								
Non-controlling interests	–	–	1,162.8	709.9	1,303.7	994.6	–	–
Net holdings of funds	1,285.7	935.7	5,725.5	4,319.2	17,998.0	16,474.0	18,491.4	19,262.5
Consolidated statement of income and changes in net assets for years ended December 31								
Income								
Investment income	37.8	26.5	216.7	83.5	780.1	725.2	570.7	459.0
Other income	–	–	2.4	2.3	–	–	3.7	–
	37.8	26.5	219.1	85.8	780.1	725.2	574.4	459.0
Operating expenses	0.8	0.5	17.0	11.4	37.4	17.2	43.9	40.0
Expenses related to repositioning of information technology and write-offs of intangible assets	–	0.1	–	2.3	–	0.9	–	5.5
Income before the following items	37.0	25.9	202.1	72.1	742.7	707.1	530.5	413.5
Interest on notes payable to entities under common control	–	–	–	–	–	–	–	0.3
Interest on loans payable	–	–	–	–	–	–	–	–
Net investment income (loss)	37.0	25.9	202.1	72.1	742.7	707.1	530.5	413.2
Gains (losses) on sale of investments	98.8	22.3	(57.9)	36.7	141.0	326.2	(1,468.3)	1,089.2
Unrealized increases (decreases) in value of investments and liabilities related to investments	66.6	32.3	1,234.2	417.7	1,108.2	1,068.0	(1,195.6)	1,054.4
Net investment results	202.4	80.5	1,378.4	526.5	1,991.9	2,101.3	(2,133.4)	2,556.8
Participation units issued (cancelled)	184.6	228.9	530.8	3,932.2	380.5	972.0	1,892.8	112.7
Net investment loss (net income) recovered from (allocated to) participation unit holders	(37.0)	(25.9)	(168.0)	(59.5)	(690.6)	(646.3)	(530.5)	(413.2)
Other changes in non-controlling interests	–	–	116.0	629.9	151.3	(55.6)	–	–
Increase (decrease) in consolidated net assets	350.0	283.5	1,857.2	5,029.1	1,833.1	2,371.4	(771.1)	2,256.3
Consolidated net assets, beginning of year	935.7	652.2	5,029.1	–	17,468.6	15,097.2	19,262.5	17,006.2
Consolidated net assets, end of year	1,285.7	935.7	6,888.3	5,029.1	19,301.7	17,468.6	18,491.4	19,262.5
Attributable to participation unit holders								
Net investment results	202.4	80.5	1,378.4	526.5	1,991.9	2,101.3	(2,133.4)	2,556.8
Less:								
Net investment results attributable to non-controlling interests	–	–	334.9	80.0	157.8	141.2	–	–
Net investment results attributable to participation unit holders	202.4	80.5	1,043.5	446.5	1,834.1	1,960.1	(2,133.4)	2,556.8
Participation units issued (cancelled)	184.6	228.9	530.8	3,932.2	380.5	972.0	1,892.8	112.7
Net investment loss (net income) recovered from (allocated to) participation unit holders	(37.0)	(25.9)	(168.0)	(59.5)	(690.6)	(646.3)	(530.5)	(413.2)
Increase (decrease) in net holdings of funds	350.0	283.5	1,406.3	4,319.2	1,524.0	2,285.8	(771.1)	2,256.3
Net holdings of funds, beginning of year	935.7	652.2	4,319.2	–	16,474.0	14,188.2	19,262.5	17,006.2
Net holdings of funds, end of year	1,285.7	935.7	5,725.5	4,319.2	17,998.0	16,474.0	18,491.4	19,262.5
Investments and liabilities related to investments at cost as at December 31								
Investments								
Real estate holdings	–	–	–	–	18,895.0	20,092.3	–	–
Equities and convertible securities	–	–	4,887.5	4,074.0	3,945.0	4,036.1	10,171.9	8,400.4
Bonds	1,157.4	895.8	1,269.9	483.0	–	–	–	–
Mortgages	–	–	–	–	1,485.5	1,220.7	–	–
Mortgage securities	–	–	–	–	–	–	–	–
Short-term investments	–	–	–	–	992.8	1,174.5	–	1,548.3
Notes receivable from entities under common control	–	–	–	–	–	–	12,325.8	12,295.0
Securities acquired under reverse repurchase agreements	–	–	–	–	–	–	–	–
Real estate held for resale	–	–	–	–	–	–	–	–
ABTNs	–	–	–	–	–	–	–	–
	1,157.4	895.8	6,157.4	4,557.0	25,318.3	26,523.6	22,497.7	22,243.7
Liabilities related to investments								
Securities sold under repurchase agreements	148.6	6.5	–	–	–	–	–	–
Notes payable to entities under common control	–	–	–	–	–	–	–	–
Loans payable	–	–	9.4	13.2	142.2	127.7	–	–
Loans payable to entities under common control	–	–	–	–	8,303.6	8,281.4	–	–
Mortgage loans payable	–	–	–	–	2,215.6	2,842.9	–	–
Commercial mortgage-backed securities (CMBS)	–	–	–	–	–	–	–	–
Short selling of securities	–	–	–	–	–	–	5,221.0	4,749.3
Derivative financial instruments	–	–	52.7	96.2	22.7	3.2	–	–
	148.6	6.5	62.1	109.4	10,684.1	11,255.2	5,221.0	4,749.3

SUPPLEMENTARY INFORMATION

Summary financial statements for the specialized portfolios (cont.)

(in millions of dollars)

	GLOBAL EQUITY (735) (Created April 1)		QUÉBEC INTERNATIONAL (761)		U.S. Equity (731) (Created April 1)		EAFE Equity (730) (Created April 1)	
Consolidated net assets as at December 31	2011	2010	2011	2010	2011	2010	2011	2010
Assets								
Investments at fair value								
Real estate holdings	–	–	–	–	–	–	–	–
Equities and convertible securities	14,109.4	9,520.1	–	8.1	8,112.2	547.0	9,105.3	9,722.6
Bonds	–	9.1	3,562.9	6,843.4	–	–	–	–
Mortgages	–	–	–	–	–	–	–	–
Mortgage securities	–	–	–	–	–	–	–	–
Short-term investments	8.6	30.2	–	–	–	–	–	0.1
Notes receivable from entities under common control	–	–	1,544.2	1,972.2	–	5,279.0	–	–
Securities acquired under reverse repurchase agreements	–	–	112.7	–	–	–	–	–
Real estate held for resale	–	–	–	–	–	–	–	–
ABTNs	–	–	–	–	–	–	–	–
	14,118.0	9,559.4	5,219.8	8,823.7	8,112.2	5,826.0	9,105.3	9,722.7
Demand deposits in the General Fund	–	–	1.5	219.7	–	–	–	–
Other assets	44.6	49.2	85.1	66.0	13.6	1.1	24.3	19.6
	14,162.6	9,608.6	5,306.4	9,109.4	8,125.8	5,827.1	9,129.6	9,742.3
Liabilities								
Liabilities related to investments								
Securities sold under repurchase agreements	–	–	747.0	281.1	–	–	–	–
Notes payable to entities under common control	770.0	1,444.7	–	–	–	–	–	–
Loans payable	–	–	–	–	–	–	–	–
Loans payable to entities under common control	–	–	–	–	–	–	–	–
Mortgage loans payable	–	–	–	–	–	–	–	–
Commercial mortgage-backed securities (CMBS)	–	–	–	–	–	–	–	–
Short selling of securities	2,030.3	2,082.5	–	–	–	–	–	–
Derivative financial instruments	147.3	99.3	9.9	0.3	–	–	–	–
	2,947.6	3,626.5	756.9	281.4	–	–	–	–
Advances from the General Fund	298.8	58.7	–	–	5.5	66.2	25.4	4.8
Other liabilities	74.0	57.0	9.4	398.2	14.4	0.3	10.0	8.5
	3,320.4	3,742.2	766.3	679.6	19.9	66.5	35.4	13.3
Consolidated net assets	10,842.2	5,866.4	4,540.1	8,429.8	8,105.9	5,760.6	9,094.2	9,729.0
Less:								
Non-controlling interests	–	–	–	–	–	–	–	–
Net holdings of funds	10,842.2	5,866.4	4,540.1	8,429.8	8,105.9	5,760.6	9,094.2	9,729.0
Consolidated statement of income and changes in net assets for years ended December 31								
Income								
Investment income	224.0	99.7	199.4	314.7	109.6	22.5	326.8	185.7
Other income	–	–	–	–	–	–	–	–
	224.0	99.7	199.4	314.7	109.6	22.5	326.8	185.7
Operating expenses	27.8	11.3	21.8	32.0	4.4	3.9	8.6	7.3
Expenses related to repositioning of information technology and write-offs of intangible assets	–	2.5	–	5.1	–	0.7	–	1.2
Income before the following items	196.2	85.9	177.6	277.6	105.2	17.9	318.2	177.2
Interest on notes payable to entities under common control	13.1	6.3	–	0.1	–	–	–	–
Interest on loans payable	–	–	–	–	–	–	–	–
Net investment income (loss)	183.1	79.6	177.6	277.5	105.2	17.9	318.2	177.2
Gains (losses) on sale of investments	187.8	(108.7)	(218.4)	792.3	141.7	333.9	47.2	(99.1)
Unrealized increases (decreases) in value of investments and liabilities related to investments	(1,053.5)	534.1	127.3	109.6	72.1	20.3	(1,327.5)	497.1
Net investment results	(682.6)	505.0	86.5	1,179.4	319.0	372.1	(962.1)	575.2
Participation units issued (cancelled)	5,841.5	5,441.0	(3,798.6)	(5,271.4)	2,131.5	5,406.4	645.5	9,331.0
Net investment loss (net income) recovered from (allocated to) participation unit holders	(183.1)	(79.6)	(177.6)	(277.5)	(105.2)	(17.9)	(318.2)	(177.2)
Other changes in non-controlling interests	–	–	–	–	–	–	–	–
Increase (decrease) in consolidated net assets	4,975.8	5,866.4	(3,889.7)	(4,369.5)	2,345.3	5,760.6	(634.8)	9,729.0
Consolidated net assets, beginning of year	5,866.4	–	8,429.8	12,799.3	5,760.6	–	9,729.0	–
Consolidated net assets, end of year	10,842.2	5,866.4	4,540.1	8,429.8	8,105.9	5,760.6	9,094.2	9,729.0
Attributable to participation unit holders								
Net investment results	(682.6)	505.0	86.5	1,179.4	319.0	372.1	(962.1)	575.2
Less:								
Net investment results attributable to non-controlling interests	–	–	–	–	–	–	–	–
Net investment results attributable to participation unit holders	(682.6)	505.0	86.5	1,179.4	319.0	372.1	(962.1)	575.2
Participation units issued (cancelled)	5,841.5	5,441.0	(3,798.6)	(5,271.4)	2,131.5	5,406.4	645.5	9,331.0
Net investment loss (net income) recovered from (allocated to) participation unit holders	(183.1)	(79.6)	(177.6)	(277.5)	(105.2)	(17.9)	(318.2)	(177.2)
Increase (decrease) in net holdings of funds	4,975.8	5,866.4	(3,889.7)	(4,369.5)	2,345.3	5,760.6	(634.8)	9,729.0
Net holdings of funds, beginning of year	5,866.4	–	8,429.8	12,799.3	5,760.6	–	9,729.0	–
Net holdings of funds, end of year	10,842.2	5,866.4	4,540.1	8,429.8	8,105.9	5,760.6	9,094.2	9,729.0
Investments and liabilities related to investments at cost as at December 31								
Investments								
Real estate holdings	–	–	–	–	–	–	–	–
Equities and convertible securities	14,634.0	8,893.1	–	–	8,019.8	447.4	9,935.9	9,225.6
Bonds	–	10.0	3,326.9	6,752.7	–	–	–	–
Mortgages	–	–	–	–	–	–	–	–
Mortgage securities	–	–	–	–	–	–	–	–
Short-term investments	–	–	–	–	–	–	–	–
Notes receivable from entities under common control	–	–	1,544.2	1,971.9	–	5,358.2	–	–
Securities acquired under reverse repurchase agreements	–	–	112.7	–	–	–	–	–
Real estate held for resale	–	–	–	–	–	–	–	–
ABTNs	–	–	–	–	–	–	–	–
	14,634.0	8,903.1	4,983.7	8,724.6	8,019.8	5,805.6	9,935.9	9,225.6
Liabilities related to investments								
Securities sold under repurchase agreements	–	–	747.0	281.1	–	–	–	–
Notes payable to entities under common control	770.0	1,444.7	–	–	–	–	–	–
Loans payable	–	–	–	–	–	–	–	–
Loans payable to entities under common control	–	–	–	–	–	–	–	–
Mortgage loans payable	–	–	–	–	–	–	–	–
Commercial mortgage-backed securities (CMBS)	–	–	–	–	–	–	–	–
Short selling of securities	2,168.2	2,055.9	–	–	–	–	–	–
Derivative financial instruments	6.0	3.7	–	–	–	–	–	–
	2,944.2	3,504.3	747.0	281.1	–	–	–	–

SUPPLEMENTARY INFORMATION

Summary financial statements for the specialized portfolios (cont.)

(In millions of dollars)	EMERGING MARKETS EQUITY (732)		PRIVATE EQUITY (780)		HEDGE FUNDS (770)		ASSET ALLOCATION (771)	
Consolidated net assets as at December 31	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Assets								
Investments at fair value								
Real estate holdings	–	–	–	–	–	–	–	–
Equities and convertible securities	**5,890.2**	5,809.3	**15,380.9**	16,256.9	**3,179.4**	3,243.0	**86.2**	32.8
Bonds	–	–	**517.5**	461.2	–	–	**194.7**	79.8
Mortgages	–	–	–	–	–	–	–	–
Mortgage securities	–	–	–	–	–	–	–	–
Short-term investments	**0.2**	–	**8.7**	131.8	–	8.0	**686.7**	159.6
Notes receivable from entities under common control	–	–	–	–	–	–	–	–
Securities acquired under reverse repurchase agreements	–	–	–	–	–	–	–	–
Real estate held for resale	–	–	–	–	–	–	–	–
ABTNs	–	–	–	–	–	–	–	–
	5,890.4	5,809.3	**15,907.1**	16,849.9	**3,179.4**	3,251.0	**967.6**	272.2
Demand deposits in the General Fund	–	–	–	713.9	**95.8**	155.4	**1,205.5**	667.8
Other assets	**9.7**	6.3	**32.7**	37.9	**4.4**	6.1	**1.4**	2.8
	5,900.1	5,815.6	**15,939.8**	17,601.7	**3,279.6**	3,412.5	**2,174.5**	942.8
Liabilities								
Liabilities related to investments								
Securities sold under repurchase agreements	–	–	–	–	–	–	–	–
Notes payable to entities under common control	–	–	–	–	–	–	–	–
Loans payable	–	–	–	–	–	–	–	–
Loans payable to entities under common control	–	–	–	–	–	–	–	–
Mortgage loans payable	–	–	–	–	–	–	–	–
Commercial mortgage-backed securities (CMBS)	–	–	–	–	–	–	–	–
Short selling of securities	**0.7**	6.2	**60.4**	91.9	–	–	–	–
Derivative financial instruments	–	–	**123.5**	3.3	**0.4**	99.3	**949.1**	308.1
	0.7	6.2	**183.9**	95.2	**0.4**	99.3	**949.1**	308.1
Advances from the General Fund	**2.7**	6.1	**9.9**	–	–	–	–	–
Other liabilities	**15.6**	4.2	**21.5**	59.0	**7.5**	7.4	**3.7**	–
	19.0	16.5	**215.3**	154.2	**7.9**	106.7	**952.8**	308.1
Consolidated net assets	**5,881.1**	5,799.1	**15,724.5**	17,447.5	**3,271.7**	3,305.8	**1,221.7**	634.7
Less:								
Non-controlling interests	–	–	–	–	–	–	–	–
Net holdings of funds	**5,881.1**	5,799.1	**15,724.5**	17,447.5	**3,271.7**	3,305.8	**1,221.7**	634.7
Consolidated statement of income and changes in net assets for years ended December 31								
Income								
Investment income	**143.9**	110.5	**289.2**	244.5	**12.4**	0.3	**7.2**	(0.1)
Other income	–	–	**43.6**	2.1	–	–	–	–
	143.9	110.5	**332.8**	246.6	**12.4**	0.3	**7.2**	(0.1)
Operating expenses	**9.5**	14.0	**34.7**	25.6	**11.0**	10.2	**14.0**	9.5
Expenses related to repositioning of information technology and write-offs of intangible assets	–	1.7	–	2.7	–	1.2	–	1.3
Income before the following items	**134.4**	94.8	**298.1**	218.3	**1.4**	(11.1)	**(6.8)**	(10.9)
Interest on notes payable to entities under common control	–	–	–	1.2	–	–	–	–
Interest on loans payable	–	–	–	2.4	–	–	–	–
Net investment income (loss)	**134.4**	94.8	**298.1**	214.7	**1.4**	(11.1)	**(6.8)**	(10.9)
Gains (losses) on sale of investments	**35.9**	235.0	**212.6**	849.3	**107.2**	135.4	**94.0**	(46.3)
Unrealized increases (decreases) in value of investments and liabilities related to investments	**(1,210.2)**	278.5	**602.5**	2,241.7	**(104.2)**	75.6	**34.0**	(20.0)
Net investment results	**(1,039.9)**	608.3	**1,113.2**	3,305.7	**4.4**	199.9	**121.2**	(77.2)
Participation units issued (cancelled)	**1,256.3**	347.3	**(2,538.1)**	3,121.6	**(37.1)**	(731.7)	**459.0**	201.6
Net investment loss (net income) recovered from (allocated to) participation unit holders	**(134.4)**	(94.8)	**(298.1)**	(214.7)	**(1.4)**	11.1	**6.8**	10.9
Other changes in non-controlling interests	–	–	–	–	–	–	–	–
Increase (decrease) in consolidated net assets	**82.0**	860.8	**(1,723.0)**	6,212.6	**(34.1)**	(520.7)	**587.0**	135.3
Consolidated net assets, beginning of year	**5,799.1**	4,938.3	**17,447.5**	11,234.9	**3,305.8**	3,826.5	**634.7**	499.4
Consolidated net assets, end of year	**5,881.1**	5,799.1	**15,724.5**	17,447.5	**3,271.7**	3,305.8	**1,221.7**	634.7
Attributable to participation unit holders								
Net investment results	**(1,039.9)**	608.3	**1,113.2**	3,305.7	**4.4**	199.9	**121.2**	(77.2)
Less:								
Net investment results attributable to non-controlling interests	–	–	–	–	–	–	–	–
Net investment results attributable to participation unit holders	**(1,039.9)**	608.3	**1,113.2**	3,305.7	**4.4**	199.9	**121.2**	(77.2)
Participation units issued (cancelled)	**1,256.3**	347.3	**(2,538.1)**	3,121.6	**(37.1)**	(731.7)	**459.0**	201.6
Net investment loss (net income) recovered from (allocated to) participation unit holders	**(134.4)**	(94.8)	**(298.1)**	(214.7)	**(1.4)**	11.1	**6.8**	10.9
Increase (decrease) in net holdings of funds	**82.0**	860.8	**(1,723.0)**	6,212.6	**(34.1)**	(520.7)	**587.0**	135.3
Net holdings of funds, beginning of year	**5,799.1**	4,938.3	**17,447.5**	11,234.9	**3,305.8**	3,826.5	**634.7**	499.4
Net holdings of funds, end of year	**5,881.1**	5,799.1	**15,724.5**	17,447.5	**3,271.7**	3,305.8	**1,221.7**	634.7
Investments and liabilities related to investments at cost as at December 31								
Investments								
Real estate holdings	–	–	–	–	–	–	–	–
Equities and convertible securities	**5,929.4**	4,638.1	**17,203.9**	18,777.5	**3,210.0**	3,070.5	**49.6**	11.6
Bonds	–	–	**694.8**	660.9	–	–	**0.4**	–
Mortgages	–	–	–	–	–	–	–	–
Mortgage securities	–	–	–	–	–	–	–	–
Short-term investments	–	–	**65.6**	199.1	–	8.0	**53.5**	49.5
Notes receivable from entities under common control	–	–	–	–	–	–	–	–
Securities acquired under reverse repurchase agreements	–	–	–	–	–	–	–	–
Real estate held for resale	–	–	–	–	–	–	–	–
ABTNs	–	–	–	–	–	–	–	–
	5,929.4	4,638.1	**17,964.3**	19,637.5	**3,210.0**	3,078.5	**103.5**	61.1
Liabilities related to investments								
Securities sold under repurchase agreements	–	–	–	–	–	–	–	–
Notes payable to entities under common control	–	–	–	–	–	–	–	–
Loans payable	–	–	–	–	–	–	–	–
Loans payable to entities under common control	–	–	–	–	–	–	–	–
Mortgage loans payable	–	–	–	–	–	–	–	–
Commercial mortgage-backed securities (CMBS)	–	–	–	–	–	–	–	–
Short selling of securities	**0.7**	6.1	**51.4**	90.5	–	–	–	–
Derivative financial instruments	–	–	–	–	–	–	**58.4**	37.3
	0.7	6.1	**51.4**	90.5	–	–	**58.4**	37.3

SUPPLEMENTARY INFORMATION

Summary financial statements for the specialized portfolios (cont.)

(In millions of dollars)

	ABTNs (772)	
Consolidated net assets as at December 31	**2011**	2010
Assets		
Investments at fair value		
Real estate holdings	–	–
Equities and convertible securities	–	–
Bonds	–	–
Mortgages	–	–
Mortgage securities	–	–
Short-term investments	–	–
Notes receivable from entities under common control	–	–
Securities acquired under reverse repurchase agreements	–	–
Real estate held for resale	–	–
ABTNs	8,931.8	8,941.6
	8,931.8	8,941.6
Demand deposits in the General Fund	2.6	3.4
Other assets	37.3	37.4
	8,971.7	8,982.4
Liabilities		
Liabilities related to investments		
Securities sold under repurchase agreements	–	–
Notes payable to entities under common control	9,652.6	10,004.1
Loans payable	1,744.7	1,503.3
Loans payable to entities under common control	–	–
Mortgage loans payable	–	–
Commercial mortgage-backed securities (CMBS)	–	–
Short selling of securities	–	–
Derivative financial instruments	32.9	23.6
	11,430.2	11,531.0
Advances from the General Fund	–	–
Other liabilities	61.3	62.2
	11,491.5	11,593.2
Consolidated net assets	(2,519.8)	(2,610.8)
Less:		
Non-controlling interests	–	–
Net holdings of funds	(2,519.8)	(2,610.8)
Consolidated statement of income and changes in net assets for years ended December 31		
Income		
Investment income	153.6	111.2
Other income	–	–
	153.6	111.2
Operating expenses	10.0	9.6
Expenses related to repositioning of information technology and write-offs of intangible assets	–	0.8
Income before the following items	143.6	100.8
Interest on notes payable to entities under common control	127.2	82.9
Interest on loans payable	18.4	8.7
Net investment income (loss)	(2.0)	9.2
Gains (losses) on sale of investments	(23.5)	(499.8)
Unrealized increases (decreases) in value of investments and liabilities related to investments	118.1	999.6
Net investment results	92.6	509.0
Participation units issued (cancelled)	(3.6)	2,011.4
Net investment loss (net income) recovered from (allocated to) participation unit holders	2.0	(9.2)
Transfer of unrealized decrease in value as at January 1, 2010		(5,122.0)
Other changes in non-controlling interests	–	–
Increase (decrease) in consolidated net assets	91.0	(2,610.8)
Consolidated net assets, beginning of year	(2,610.8)	–
Consolidated net assets, end of year	(2,519.8)	(2,610.8)
Attributable to participation unit holders		
Net investment results	92.6	509.0
Less:		
Net investment results attributable to non-controlling interests	–	–
Net investment results attributable to participation unit holders	92.6	509.0
Participation units issued (cancelled)	(3.6)	2,011.4
Net investment loss (net income) recovered from (allocated to) participation unit holders	2.0	(9.2)
Transfer of unrealized decrease in value as at January 1, 2010	–	(5,122.0)
Increase (decrease) in net holdings of funds	91.0	(2,610.8)
Net holdings of funds, beginning of year	(2,610.8)	–
Net holdings of funds, end of year	(2,519.8)	(2,610.8)
Investments and liabilities related to investments at cost as at December 31		
Investments		
Real estate holdings	–	–
Equities and convertible securities	–	–
Bonds	–	–
Mortgages	–	–
Mortgage securities	–	–
Short-term investments	–	–
Notes receivable from entities under common control	–	–
Securities acquired under reverse repurchase agreements	–	–
Real estate held for resale	–	–
ABTNs	12,925.1	13,049.6
	12,925.1	13,049.6
Liabilities related to investments		
Securities sold under repurchase agreements	–	–
Notes payable to entities under common control	9,652.6	10,005.0
Loans payable	1,766.6	1,511.7
Loans payable to entities under common control	–	–
Mortgage loans payable	–	–
Commercial mortgage-backed securities (CMBS)	–	–
Short selling of securities	–	–
Derivative financial instruments	–	–
	11,419.2	11,516.7

FINANCIAL CERTIFICATE OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

I, Michael Sabia, President and Chief Executive Officer of the Caisse de dépôt et placement du Québec, certify that:

1. **Review**: I have reviewed the Combined financial statements, the tables of returns, the press release announcing the annual results and the Annual Report (hereafter referred to as the "Annual Filings") of the Caisse de dépôt et placement du Québec (the "Caisse") for the year ended December 31, 2011.

2. **No false or misleading information**: To the best of my knowledge, having exercised reasonable diligence, the Annual Filings do not contain any untrue statement of a material fact or omit to state any material fact that is required to be stated or necessary to make a statement that is not misleading in light of the circumstances in which it was made, with respect to the period covered by the Annual Filings.

3. **Fair presentation**: To the best of my knowledge, having exercised reasonable diligence, the Combined financial statements and the other financial information included in the Annual Filings present fairly, in all material respects, the financial position of the Caisse as at the closing dates of the periods presented in the Annual Filings, as well as the results of its operations for those years.

4. **Responsibility**: I am responsible for the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR) for the Caisse, in accordance with the responsibilities entrusted to me under section 5.12 of an Act respecting the Caisse.

5. **Design**: Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, as at fiscal year-end, I have:

   a) Designed, or caused to be designed under my supervision, DC&P to provide reasonable assurance that:

      i) Material information relating to the Caisse is made known to me by others, particularly during the period in which the Annual Filings are prepared.

      ii) Information required to be disclosed by the Caisse in its Annual Filings filed or submitted by it under the legislation is recorded, processed, summarized and reported within the time periods prescribed by the legislation.

   b) Designed, or caused to be designed under my supervision, ICFR to provide reasonable assurance that financial information is reliable and that the Combined financial statements have been prepared, with a view to publication of financial information, in accordance with Canadian generally accepted accounting principles.

5.1. **Control framework**: The control framework that I have used to design the ICFR is that proposed by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

5.2. **ICFR material weakness relating to design**: Not applicable.

5.3. **Limitation of scope of design**: Not applicable.

6. **Evaluation**: I have:

   a) Evaluated or caused to be evaluated under my supervision, the effectiveness of the DC&P of the Caisse at fiscal year-end and the Caisse disclosed in its Annual Report my conclusions about the effectiveness of this evaluation.

   b) Evaluated or caused to be evaluated under my supervision, the effectiveness of the ICFR of the Caisse at fiscal year-end and the Caisse disclosed in its Annual Report the following information:

   i) My conclusions about the effectiveness of the ICFR at fiscal year-end based on that evaluation.

   ii) Description of any material weakness relating to current operation at fiscal year-end: Not applicable.

7. **Reporting changes in ICFR**: The Caisse disclosed in its Annual Report any change made to the ICFR that occurred during the accounting period beginning on January 1, 2011 and ending on December 31, 2011 that has had, or is likely to have, a material impact on the ICFR.

8. **Reporting to co-auditors and the Board of Directors or Audit Committee**: I have disclosed, based on our most recent valuation of the ICFR, to the co-auditors and the Board of Directors of the Caisse or its Audit Committee any fraud that involves management or other employees who have a significant role in the ICFR.

President and Chief Executive Officer

MICHAEL SABIA

April 11, 2012

FINANCIAL CERTIFICATE OF THE EXECUTIVE VICE-PRESIDENT AND CHIEF FINANCIAL OFFICER

I, Maarika Paul, Executive Vice-President and Chief Financial Officer of the Caisse de dépôt et placement du Québec, certify that:

1. **Review:** I have reviewed the Combined financial statements, the tables of returns, the press release announcing the annual results and the Annual Report (hereafter referred to as the ("Annual Filings") of the Caisse de dépôt et placement du Québec (the "Caisse") for the year ended December 31, 2011.

2. **No false or misleading information:** To the best of my knowledge, having exercised reasonable diligence, the Annual Filings do not contain any untrue statement of a material fact or omit to state any material fact that is required to be stated or necessary to make a statement that is not misleading in light of the circumstances in which it was made, with respect to the period covered by the Annual Filings.

3. **Fair presentation:** To the best of my knowledge, having exercised reasonable diligence, the Combined financial statements and the other financial information included in the Annual Filings present fairly, in all material respects, the financial position of the Caisse as at the closing dates of the periods presented in the Annual Filings, as well as the results of its operations for those years.

4. **Responsibility:** I am responsible for the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR) for the Caisse, in accordance with the responsibilities entrusted to me under section 5.12 of an Act respecting the Caisse.

5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, as at fiscal year-end, I have:

   a) Designed, or caused to be designed under my supervision, DC&P to provide reasonable assurance that:

      i) Material information relating to the Caisse is made known to me by others, particularly during the period in which the Annual Filings are prepared.

      ii) Information required to be disclosed by the Caisse in its Annual Filings filed or submitted by it under the legislation is recorded, processed, summarized and reported within the time periods prescribed by the legislation.

   b) Designed, or caused to be designed under my supervision, ICFR to provide reasonable assurance that financial information is reliable and that the Combined financial statements have been prepared, with a view to publication of financial information, in accordance with Canadian generally accepted accounting principles.

5.1. **Control framework:** The control framework that I have used to design the ICFR is that proposed by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

5.2. **ICFR material weakness relating to design:** Not applicable.

5.3. **Limitation of scope of design:** Not applicable.

6. **Evaluation:** I have:

   a) Evaluated or caused to be evaluated under my supervision, the effectiveness of the DC&P of the Caisse at fiscal year-end and the Caisse disclosed in its Annual Report my conclusions about the effectiveness of this evaluation.

   b) Evaluated or caused to be evaluated under my supervision, the effectiveness of the ICFR of the Caisse at fiscal year-end and the Caisse disclosed in its Annual Report the following information:

      i) My conclusions about the effectiveness of the ICFR at fiscal year-end based on that evaluation.

      ii) Description of any material weakness relating to current operation at fiscal year-end: Not applicable.

7. **Reporting changes in ICFR:** The Caisse disclosed in its Annual Report any change made to the ICFR that occurred during the accounting period beginning on January 1, 2011 and ending on December 31, 2011 that has had, or is likely to have, a material impact on the ICFR.

8. **Reporting to co-auditors and the Board of Directors or Audit Committee:** I have disclosed, based on our most recent valuation of the ICFR, to the co-auditors and the Board of Directors of the Caisse or its Audit Committee any fraud that involves management or other employees who have a significant role in the ICFR.

Executive Vice-President and Chief Financial Officer

Maarika Paul

MAARIKA PAUL

April 11, 2012

CONCLUSIONS ABOUT THE DESIGN AND EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING

In 2011, the Chief Financial Officer oversaw efforts to update existing documents and evaluate the design and effectiveness of internal control over financial reporting, and the management committee approved the methodology for evaluating key controls. The purpose of this evaluation of internal controls over the Caisse's main financial processes was to ensure that the Caisse meets its quality objectives related to financial reporting, in all material respects.

The framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) usually adopted by North American corporations was used to evaluate the design and effectiveness of internal control over financial reporting. This undertaking enabled the Disclosure Committee to conclude that the design of control over financial reporting is adequate and effective to provide reasonable assurance with respect to the reliability of the financial information presented in the Annual Filings, as defined in the Caisse's Financial Certification Policy, and that the Caisse's Combined financial statements are prepared in accordance with Canadian generally accepted accounting principles.

CONCLUSIONS ABOUT THE DESIGN AND EFFECTIVENESS OF FINANCIAL REPORTING CONTROLS AND PROCEDURES

Under the Caisse's Financial Certification Policy, the design and effectiveness of disclosure controls and procedures pertaining to Annual Filings, i.e. the Combined financial statements, the schedules of returns, the press release announcing the annual results and the Annual Report, must be evaluated.

As with the evaluation of internal control over financial reporting, the Chief Financial Officer also oversaw efforts to update existing documents and evaluate the design and effectiveness of disclosure controls and procedures, and the management committee also approved the methodology for evaluating key controls.

As at December 31, 2011, based on the evaluation, disclosure controls and procedures are adequate and effective, and provide reasonable assurance that all relevant information is gathered and submitted in a timely fashion to senior management, in particular to the President and Chief Executive Officer and the Chief Financial Officer, to ensure that appropriate decisions concerning disclosure can be made.

The Board of Directors also approved the 2011 Annual Filings before their public disclosure.

General Notes

1. The Caisse's activities comply with the requirements of the Act respecting the Caisse de dépôt et placement du Québec[1] and investment industry practices. Its financial statements are prepared in accordance with Canadian generally accepted accounting principles. Each year, the Caisse's co-auditors, the Auditor General and Ernst & Young s.r.l./S.E.N.C.R.L., audit the financial statements, the compliance of operations with the law, regulations, policies and guidelines to the extent they believe is required.
2. The 2011 Annual Report Additional Information is an integral part of the 2011 Annual Report and presents, in the first section, the Tables of Returns as at December 31, 2011, relating to the composites of the Caisse's depositors' accounts. The tables and calculations have been audited as at December 31, 2011, by the firm Samson Bélair/Deloitte & Touche s.e.n.c.r.l. for compliance with Global Investment Performance Standards (GIPS®).
3. In this Annual Report, depositors' net assets and net investment results are defined as depositors' net holdings and net investment results attributable to depositors as presented in the Combined Financial Statements of the Caisse de dépôt et placement du Québec.
4. The specialized portfolios' returns represent the time-weighted rate of return.
5. The benchmark indexes for the asset classes and overall portfolio are based on the weighted average of the benchmark indexes for the specialized portfolios.
6. Unless otherwise stated, returns, expressed as a percentage, are presented before operating expenses and other fees, but net of transaction fees, and are annualized for periods of more than one year. They include the return on cash and cash equivalents, and take into account, depending on the case, a hedge against currency fluctuation risk. The return differential related to the operating expenses of each specialized portfolio are presented in the Tables of returns of the 2011 Annual Report Additional Information.
7. Unless otherwise stated, returns and net investment results in dollars are cumulative and net of operating expenses and other fees.
8. Certain returns are expressed in basis points (b.p.). Therefore, 100 basis points equal 1.00% and one basis point equals 0.01%.
9. Unless otherwise stated, all figures are in Canadian dollars. The letters "M" and "B" used with dollar amounts designate, respectively, "millions" and "billions."
10. Totals (figures or percentages) may vary due to the rounding of figures.
11. Unless otherwise stated, all data in tables and figures are from studies conducted by the Caisse.
12. The tables listing the top 10 investments present, in alphabetical order, the main cash positions based on information shown in Tables 8, 9, 10 and 11 of the 2011 Annual Report Additional Information.
13. For many years, the Caisse has looked at the location of the company's or security issuer's headquarters in order to decide if it is Québec-based. For real estate, it refers to the location of the asset.

    This classification system, which is widely used in the fund management industry, contains certain biases. Some companies are considered as Québec-based, even if their core business is outside Québec, while other companies operating extensively in Québec are not taken into account if their headquarters is located outside the province.

1. The Act respecting the Caisse de dépôt et placement du Québec is available on our website.

- The 2011 Annual Report and the 2011 Annual Report Additional Information are available on our website: www.lacaisse.com.
- *Le Rapport annuel 2011 et le document Renseignements additionnels au rapport annuel 2011 sont accessibles en ligne sur notre site Web : www.lacaisse.com.*
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